



2020 ANNUAL

**Management's Discussion &
Analysis and Financial Statements**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	As at and for the year ended December 31,		
	2020	2019	2018
Revenue	181,503	185,338	183,629
EBITDA	118,571	121,048	122,676
Net income (loss) ⁽¹⁾	(1,390)	1,717	2,304
Preferred dividends	2,452	2,452	2,452
Total assets	1,240,260	1,105,645	1,131,928
Total long-term liabilities	750,557	770,660	806,887

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

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LEGAL NOTICE

This document is not an offer or invitation for the subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of any investors. Before making an investment in Capstone Infrastructure Corporation (the "Corporation"), an investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

Caution Regarding Forward-Looking Statements

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of the Corporation based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in "Results of Operations" and "Financial Position Review". These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2020 under the headings "Changes in the Business", "Results of Operations" and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

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

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation's securities (controlling shareholder; dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities (including related to global health emergencies such as the COVID-19 coronavirus pandemic)); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); and risks related to the Corporation's power facilities (power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers (including potential delays related to the COVID-19 coronavirus pandemic); completion of the Corporation's wind and solar development projects (including potential delays related to the COVID-19 coronavirus pandemic); land tenure and related rights; environmental; 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 23, 2020, 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, 2020 and 2019.

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, 2020 and 2019. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2019, quarterly financial reports 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 4, 2021, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

ADDITIONAL GAAP PERFORMANCE MEASURES DEFINITIONS

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

CHANGES IN THE BUSINESS

In 2020, despite the global impact of the coronavirus, Capstone continued to execute on its strategic objectives, moving to self perform the operations and maintenance at its facilities with Servion and Suzlon wind turbines, successfully completing several financing activities to create flexibility, recontracting expiring power purchase agreements ("PPA") and advancing its development projects.

COVID-19 Impact

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

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

Servion and Suzlon Facilities' Operations

In 2020, Capstone transitioned the operations and maintenance services for the Grey Highlands Clean Energy Development LP ("Grey Highlands Clean"), Grey Highlands ZEP and Ganaraska ("GHG"), Snowy Ridge, and Settlers Landing wind facilities (collectively, the "Servion Projects"), and the Amherst wind facility (the "Suzlon Project") to being serviced by its in-house operations and maintenance team. The Servion Projects were taken over in February and the Amherst wind facility in December without interruption to service.

Financing Activities

Grey Highlands Clean Wind Facility ("Grey Highlands Clean") Refinancing

On June 17, 2020, the Grey Highlands Clean term loan was refinanced with its existing lenders, increasing its term loan by \$22,638 to \$66,096 and extending the term by 4 years to June 17, 2024, while locking in lower long-term interest rates through an interest rate swap. The new project debt fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2036 and the effective fixed interest rate for the duration of the term loan is 2.85%.

Claresholm Solar Project ("Claresholm") Financing

On July 9, 2020, Claresholm entered into a credit agreement providing up to \$115,000 of non-recourse debt for the construction of the solar facility, which was fully available to the project as of November 5, 2020.

The construction facility matures no later than December 31, 2021 and upon achieving commercial operation, the debt converts to a term loan, amortizing over twenty years. The debt is comprised of two tranches, up to \$60,000 from bank lenders at a floating interest rate and up to \$55,000 from long-term fixed rate lenders with the debts maturing on the fifth and twelfth anniversaries, respectively.

To mitigate the interest rate risk from the bank lenders, Claresholm has swap contracts to convert the floating interest rate obligations to a fixed rate.

Amherstburg Solar Park ("Amherstburg") Refinancing

On October 7, 2020, the Amherstburg term loan was refinanced with its existing lenders, increasing its term loan by adding a second tranche of subordinated debt for \$27,007. The new project debt carries a fixed interest rate of 3.78% and fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2031.

Power Recontracting

Hydro Facilities' Recontracting

In February 2020, Capstone entered into an amendment to the Sechelt Creek hydro facility Electricity Purchase Agreement ("EPA") with BC Hydro, amending the expiry date to October 2022.

Effective as of November 1, 2020, Capstone entered into a new EPA with BC Hydro for the 3MW Hluey Lake hydro facility. The new EPA has a 20 year term, with a BC Hydro option to extend the term of the EPA for an additional 10 years, and now expires in October 2040.

Glace Bay Wind Facility Recontracting

On October 30, 2020, Capstone entered into an amendment of the PPA with Nova Scotia Power Inc. ("NSPI") for 1.6MW of the Lingan facility. The new PPA has a 15 year term and now expires in October 2035.

Changes to the Board of Directors

On June 26, 2020, Michael Smerdon resigned from the Board of Directors. Capstone's Board of Directors now consists of 7 directors.

Project Development

Capstone continues to pursue projects at various stages of development. As at December 31, 2020, Capstone's contracted development pipeline included the rights to 190MW gross across the projects, including:

- the Claresholm solar project, a 132MW facility located in Alberta, which commenced construction in 2020, is being developed with its partner, Obton A/S ("Obton");
- the Buffalo Atlee wind projects 1, 2 and 3, in aggregate 48MW of facilities located in Alberta (collectively the "Buffalo Atlee" wind development projects), which are being developed with its partner, Sawridge First Nation ("Sawridge"); and
- the Riverhurst wind project ("Riverhurst"), a 10MW facility located in Saskatchewan.

SUBSEQUENT EVENTS

Acquisition of SWNS Wind Facilities

On January 7, 2021, Capstone acquired the assets of the Springwood, Whittington, Napier and Sumac Ridge wind facilities from wpd Europe GmbH ("wpd"). The assets are now held in SWNS Wind LP ("SWNS"), an indirect subsidiary of Capstone. The portfolio is 29MW of operating wind projects in Southern Ontario, with an average of 14 years remaining on their power purchase agreements, that will be operated and maintained by Capstone's in-house operations and maintenance team.

Capstone acquired the projects with a combination of equity and non-recourse project debt.

RESULTS OF OPERATIONS

Overview

In 2020, Capstone's EBITDA and net income were lower than in 2019. Lower EBITDA reflects:

- Lower revenue from Whitecourt as government grants were earned for fewer months due to the Bioenergy Producer Program ("BPP") which ended in March 2020, as well as lower average realized prices and lower production, partially offset by strong solar resources at Amherstburg;
- Higher expenses due to project development costs associated with early stage and business development; partially offset by
- Lower other expenses due to fair value changes on derivative financial instruments.

	For the year ended		Change
	Dec 31, 2020	Dec 31, 2019	
Revenue	181,503	185,338	(3,835)
Expenses	(58,114)	(56,776)	(1,338)
Other income and expenses	(4,818)	(7,514)	2,696
EBITDA	118,571	121,048	(2,477)
Interest expense	(36,260)	(37,679)	1,419
Depreciation and amortization	(82,106)	(81,260)	(846)
Income tax recovery (expense)	774	2,117	(1,343)
Net income	979	4,226	(3,247)

The remaining significant changes in net income were:

- Lower interest expense mainly due to scheduled loan repayments in the current year decreasing interest over time; partially offset by
- Lower income tax recovery in 2020 is mainly due to non-deductible fair value adjustments on financial instruments; and
- Higher depreciation and amortization in 2020 due to capital asset additions.

Results by Segment

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

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

Revenue

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

Revenue	For the year ended		Change
	Dec 31, 2020	Dec 31, 2019	
Wind	117,811	118,086	(275)
Gas	22,269	22,494	(225)
Solar	16,157	14,916	1,241
Hydro	13,868	14,064	(196)
Biomass ⁽¹⁾	11,398	15,778	(4,380)
Total Revenue	181,503	185,338	(3,835)

(1) Biomass revenue includes \$799 of grant funding eligibility for Whitecourt for the year (2019 - \$3,443).

Power generated (GWh)	For the year ended		Change
	Dec 31, 2020	Dec 31, 2019	
Wind	1,049.4	1,049.3	0.1
Gas	40.5	34.4	6.1
Solar	38.5	35.5	3.0
Hydro	157.7	162.4	(4.7)
Biomass	190.6	199.5	(8.9)
Total Power	1,476.7	1,481.1	(4.4)

Capstone's power segment earns revenue from:

- The wind facilities, which are located in Ontario, Nova Scotia and Québec, by producing and selling electricity in accordance with their PPAs with government agencies or regulated credit-worthy counterparties. On a megawatt ("MW") weighted-average-basis, the wind facilities have 11 years remaining on the current PPAs, with the earliest expiry in December 2021.
- Cardinal, a natural gas peaking facility located in Ontario, from fixed payments for providing capacity and availability to the IESO with a 2034 power contract expiry and by supplying electricity to the Ontario grid when it is profitable to do so. In addition, Cardinal receives a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's 15MW facility.
- Amherstburg Solar Park, a solar facility located in Ontario, and the four hydro facilities located in Ontario and British Columbia, by generating and selling electricity under long-term PPAs. On a MW weighted-average-basis, the hydro facilities have 13 years remaining on the current PPAs, with the earliest expiry in October 2022. The Amherstburg Solar Park PPA expires in 2031.
- Whitecourt, a biomass facility located in Alberta, by selling electricity at market rates to the Alberta Power Pool. Whitecourt also earns a portion of its revenue from government grants and the sale of renewable energy credits. These are supplemented or offset by a revenue sharing agreement with Whitecourt's fuel supplier, Millar Western Forest Products Ltd. ("Millar Western"), where contractual settlements are included in other gains and losses in the consolidated statement of income.

The following table shows the significant changes in revenue from 2019:

Change	Explanations
(2,644)	Lower revenue from Whitecourt because the BPP funding program ended in March 2020.
(1,544)	Lower revenue from Whitecourt due to lower market rates and production.
911	Higher revenue from Amherstburg, partially offset by the operating wind facilities due to relative resource conditions.
(558)	Various other changes.
<u>(3,835)</u>	<u>Change in revenue.</u>

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 irradiation, wind speeds and air density, ambient temperature and humidity, which affect the amount of electricity generated. In aggregate, these factors have historically resulted in higher electricity production during the first and fourth quarters.

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, 2020	Dec 31, 2019	Change
Wind	(22,244)	(21,319)	(925)
Gas	(10,684)	(11,748)	1,064
Hydro	(3,907)	(3,742)	(165)
Solar	(703)	(714)	11
Biomass	(11,359)	(10,922)	(437)
Power operating expenses	(48,897)	(48,445)	(452)
Project development costs	(2,537)	(1,535)	(1,002)
Administrative expenses	(6,680)	(6,796)	116
Total Expenses	(58,114)	(56,776)	(1,338)

Expenses for the operation and maintenance ("O&M") of the power facilities mainly consist of wages and benefits and payments to third party providers. Capstone's wind facilities are operated by Capstone's in-house operations and maintenance teams, except for Glen Dhu, Goulais, SkyGen, Saint-Philémon, Glace Bay and Fitzpatrick, which are maintained under service agreements, typically with the original equipment manufacturers. The hydro facilities are operated and maintained under an O&M agreement. In addition, Cardinal, Whitecourt and Amherstburg rely on the internal capabilities and experience of Capstone's staff. Other significant costs include fuel, transportation, insurance, utilities, land leases, raw materials, chemicals, supplies and property taxes.

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

The following table shows the significant changes in expenses from 2019:

Change	Explanations
(1,002)	Higher project development costs due to costs associated with early stage and business development in 2020.
(941)	Higher operating costs in wind due to contractual step-ups, and set up costs for the Servion sites.
873	Lower electricity costs at Cardinal due to energy conservation initiatives in place in 2020.
(268)	Various other changes.
<u>(1,338)</u>	<u>Change in expenses.</u>

FINANCIAL POSITION REVIEW

Overview

As at December 31, 2020, Capstone's working capital was a \$42,453 deficit, compared with a \$53,124 surplus as at December 31, 2019. The decrease was due to upcoming project debt maturities, which Capstone expects to refinance or extend, partially offset by higher restricted cash for the construction of the Claresholm solar project. Capstone has adequate financial flexibility, including \$71,161 of cash and \$78,660 of credit facility capacity available, positioning the Corporation for growth.

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

Liquidity

Working capital

As at	Dec 31, 2020	Dec 31, 2019
Power	(43,389)	49,468
Corporate	936	3,656
Working capital (equals current assets, less current liabilities)	<u>(42,453)</u>	<u>53,124</u>

Capstone's working capital was \$95,577 lower than December 31, 2019 due to a decrease of \$92,857 in power and a decrease of \$2,720 at corporate. The power segment decrease reflects \$109,067 of higher current debt as a few project financings mature in 2021, consisting of GHG, Snowy Ridge, Skyway 8 and SkyGen. Capstone is evaluating readily available options to refinance these non-recourse project debts or extend with existing lenders, based on advanced discussions and recent experience with its other wind projects, such as Grey Highlands Clean. In addition, higher accounts payable and accruals of \$9,623, mainly reflecting accruals for Claresholm constructions costs. This was partially offset by \$20,868 of higher restricted cash, mainly by adding \$14,549 of construction reserves for Claresholm and \$6,000 of cash security for SWNS interest rate swaps.

Cash and cash equivalents

As at	Dec 31, 2020	Dec 31, 2019
Power	69,689	64,371
Corporate	1,472	4,885
Unrestricted cash and cash equivalents	<u>71,161</u>	<u>69,256</u>

These funds are available for operating activities, capital expenditures and future acquisitions. The \$1,905 increase consists of an increase of \$5,318 at power, partially offset by a decrease of \$3,413 at corporate. Higher cash at power reflects proceeds from refinancing Grey Highlands Clean and Amherstburg and accumulation of asset distributions, partially offset by Capstone's portion of the Claresholm funding. The decrease at corporate reflects the settlement of year-end liabilities.

Cash at the power segment is comprised of \$24,448 at CPC and \$45,241 at the projects, which is only periodically accessible by corporate through distributions. The power segment's cash and cash equivalents are accessible through distributions under the terms of the CPC credit facility, which allows for distributions, subject to certain conditions. In turn, CPC receives distributions from its subsidiary power assets, which are subject to the terms of their project-specific credit agreements.

In addition to these funds, the CPC revolving credit facility has an available capacity of \$78,660 as at December 31, 2020.

Cash flow

Capstone's consolidated cash and cash equivalents increased by \$1,905 in 2020 compared with a decrease of \$7,085 in 2019. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

For the year ended	Dec 31, 2020	Dec 31, 2019
Operating activities	82,085	94,452
Investing activities	(183,893)	(29,227)
Financing activities (excluding dividends to shareholders)	106,165	(69,858)
Dividends paid to shareholders	(2,452)	(2,452)
Change in cash and cash equivalents	<u>1,905</u>	<u>(7,085)</u>

Cash flow from operating activities was \$12,367 lower in 2020. The decrease consists of \$14,324 of lower power segment cash flows, reflecting \$4,759 of swap breakage costs for the Grey Highlands Clean refinancing and to a lesser extent slightly lower revenue and higher project development costs in 2020. These were partially offset by \$1,957 higher corporate cash flows due to changes in working capital.

Cash flow used in investing activities was \$154,666 higher in 2020 driven by an increase of \$146,209 for projects under development, \$19,707 of additional restricted cash resulting from the progress of Claresholm, and \$4,000 for advances of loans receivable. These were partially offset by higher investments in capital assets of \$15,250 in 2019, primarily for the purchase of the Watford wind facility.

Cash flow used in financing activities changed by \$176,023 to a receipt of funds in 2020, reflecting new long-term debt of \$73,500 for Claresholm, \$66,096 from refinancing Grey Highlands Clean, and \$27,007 from refinancing Amherstburg, whereas 2019 included \$20,200 from refinancing Cardinal. In addition, our partners contributed \$40,586 for Claresholm.

Long-term Debt

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

	Dec 31, 2019	Additions	Repayments	Other	Dec 31, 2020
Long-term debt ^{(1), (2), (3) and (4)}	699,296	171,603	(93,610)	—	777,289
Deferred financing fees ⁽⁵⁾	(12,283)	(6,297)	—	2,890	(15,690)
	687,013	165,306	(93,610)	2,890	761,599
Less: current portion of long-term debt	(45,293)	—	—	(109,067)	(154,360)
	641,720	165,306	(93,610)	(106,177)	607,239

(1) The power segment has a cumulative \$70,098 utilized on its letter of credit facilities.

(2) On February 25, 2020, the CPC revolving credit facility was extended to December 15, 2023.

(3) Additions of \$171,603 consist of \$73,500 drawn on the Claresholm construction facility, refinancing term loans of \$66,096 for Grey Highlands Clean and \$27,007 for Amherstburg, and a draw of \$5,000 on the CPC revolving credit facility. Refer to the "Changes in the Business" section of this MD&A for details.

(4) Repayments of \$93,610 include \$43,458 for Grey Highlands Clean refinancing, \$5,000 on the CPC revolving credit facility, as well as scheduled repayments.

(5) Additions include transaction costs of \$4,509 for Claresholm, \$1,400 for Grey Highlands Clean and \$278 for Amherstburg.

As at December 31, 2020, Capstone's long-term debt consisted of \$777,289 of project debt. The current portion of long-term debt was \$154,360, consisting of \$115,239 for GHG, Snowy Ridge, Skyway 8 and SkyGen, which mature in 2021, along with scheduled debt amortization. Capstone expects to repay the scheduled amortization from income generated by the power assets and is evaluating readily available options to refinance or extend with existing lenders for the project debt maturing in 2021.

CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios. All of the power segment's project debt is non-recourse to Capstone, except for certain limited recourse guarantees provided to the lenders of the various facilities.

Equity

Shareholders' equity comprised:

As at	Dec 31, 2020	Dec 31, 2019
Common shares	62,270	62,270
Preferred shares ⁽¹⁾	72,020	72,020
Share capital	134,290	134,290
Accumulated other comprehensive income (loss)	(717)	—
Retained earnings	67,233	71,113
Equity attributable to Capstone shareholders	200,806	205,403
Non-controlling interests ⁽²⁾	96,850	59,247
Total shareholders' equity	297,656	264,650

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

(2) Increase from partner contributions of \$41,352, primarily for Claresholm.

Contractual Obligations

As at December 31, 2020, 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⁾	183,511	308,152	502,659	994,322
Operating leases	4,810	20,223	53,979	79,012
Asset retirement obligations	—	—	15,846	15,846
Purchase obligations	79,356	18,448	3,044	100,848
Total contractual obligations	267,677	346,823	575,528	1,190,028

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

Long-term debt

- Long-term debt is discussed in the "Long-term Debt" section of 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 to use, or the option to use, land in connection with the operation of existing and future wind facilities. 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 extended 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.
- Capstone's operating solar facility and solar development project have entered into agreements to use land in connection with the operation of the solar facilities with terms extending as far as 2060.
- 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 2023 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 2020, Claresholm and Riverhurst entered into various commitments for the development and construction of solar and wind facilities.

O&M agreements

- Cardinal has a maintenance contract with Siemens Energy Canada Limited covering the gas turbine at Ingredion's 15 MW facility. 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. In addition, Capstone has transitioned its Servion Projects and Suzlon Project to in-house operations and maintenance service agreements, without interruption to the facilities.
- 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 above, 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 facility's PPA may be terminated after a specified period of time.

Management services agreements

Capstone has agreements with all the partially owned wind and solar facilities and development projects, including Claresholm, Buffalo Atlee, Amherst, Saint-Philéon, Goulais, GHG, Snowy Ridge and Settlers Landing. 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. Additionally, some of the development projects include a development fee for the successful completion of the projects, which pays an agreed flat fee or 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 Ingredion's 15 MW facility, 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 totaling \$6,000 as at December 31, 2020.

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

Capital Expenditure Program

Capstone's power segment incurred \$167,439 of capital expenditures during 2020, which included \$160,325 of additions to projects under development ("PUD") and \$7,114 of additions to capital assets, which excludes right-of-use ("ROU") asset additions.

PUD expenditures in 2020 primarily consist of costs to develop the Claresholm solar project and Riverhurst and Buffalo Atlee wind projects (\$141,700, \$4,055, and \$3,075, respectively).

Income Taxes

In 2020, the current income tax expense was \$277 (2019 - \$967), reflecting lower taxable income from operations, offset by a higher corporate minimum taxes in Ontario.

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

Capstone's net deferred income tax liability decreased by \$2,006 primarily due to the difference between accounting and tax amortization claimed during the year and non-deductible fair value adjustments on financial instruments partially offset by the utilization of tax losses. Capstone's total deferred income tax assets of \$135 (2019 - \$112) primarily relate to unused tax losses carried forward. Deferred income tax liabilities of \$83,895 (2019 - \$85,878) primarily relate to the differences between amortization of intangible and capital assets for tax and accounting purposes.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in note 8 financial instruments and note 9 financial risk management in the consolidated financial statements as at and for the year ended December 31, 2020. 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 or 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, 2020	Dec 31, 2019
Derivative contract assets	15,181	6,459
Derivative contract liabilities	(17,723)	(5,773)
Net derivative contract assets (liabilities)	(2,542)	686

Net derivative contract assets decreased by \$3,228 from December 31, 2019 to a net liability, due to contractual settlement payments of \$3,388 paid by Millar Western partially offset by gains of \$160 in net income.

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

For the year ended	Dec 31, 2020	Dec 31, 2019
Whitecourt embedded derivative	13,466	(1,909)
Interest rate swap contracts	(13,306)	(6,956)
Gain (losses) on derivatives in comprehensive income	160	(8,865)

The gain on derivatives were primarily attributable to gains from the Whitecourt embedded derivative asset due to lower forecasted Alberta Power Pool prices since December 31, 2019. This was partially offset by losses from the interest rate swap contracts, mainly because of lower long-term interest rates since December 31, 2019.

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.

		Likelihood of Risk Occurrence				
		Rare	Unlikely	Somewhat Likely	Likely	Almost Certain
		1	2	3	4	5
Impact of Risk	Insignificant	1				
	Minor	2				
	Moderate	3				
	Major	4				
	Catastrophic	5				

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. In addition, refer to the "Changes in the Business" section of this MD&A for a description of the impact of COVID-19 to Capstone.

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. There have been no material changes to existing risks as a result of COVID-19. Risks specific to Capstone's power segment, as well as at the corporate-level, are included.

Risk and Description	Impact	Monitoring and Mitigation
Operational Risks		
PPA renewal risk concerns the ability to recontract expiring PPAs 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.
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.
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 maintains a succession plan and provides career and development opportunities to its employees.
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 according to market conditions and developments.
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 monitors costs against budgets and considers asset lifecycle costs in decision making.
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. 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.
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 robust and stringent environmental, health and safety regulatory regimes, which 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.

Climate Change, Greenhouse Gases and Policy Changes

Due to the emission of greenhouse gases, such as carbon dioxide ("CO₂") and nitrous oxides ("NO_x"), some of the Facilities, specifically the Cardinal and Whitecourt facilities, have an ongoing operational impact on the environment. All Facilities comply in all material respects with the applicable Canadian and provincial legislation and guidelines regarding greenhouse gases and other emissions. Capstone monitors 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. 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.

In late 2016, Canada and its provinces, other than Saskatchewan and Manitoba, agreed to the Pan-Canadian Framework on Clean Growth and Climate Change ("Framework"). Manitoba subsequently signed onto the Framework, whereas Ontario and Alberta subsequently pulled out of it. The Framework is the blueprint by which the federal government and the provinces will attempt to meet Canada's commitment under the Paris Accord. Elements of the Framework include all provincial jurisdictions being required to price carbon. 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 price-based regimes, the price should be at least \$30/tonne in 2020 and rise by \$10/tonne each year to \$50/tonne by 2022. As a regulatory backstop, the federal government has also enacted the Greenhouse Gas Pollution Pricing Act ("GGPPA"), which introduces a carbon pricing regime to those provinces that fail to implement adequate provincial measures. In December 2020, the federal government announced a strengthened climate plan entitled "A Healthy Environment and a Healthy Economy". Under the strengthened plan, the price of carbon is proposed to rise by \$15/tonne each year from 2023 to 2030, resulting in a final proposed price of \$170/tonne in 2030.

Saskatchewan, Ontario and Alberta have all launched constitutional challenges to the GGPPA. The Saskatchewan and Ontario Courts of Appeal have both rendered decisions upholding the validity of the GGPPA, and the Alberta Court of Appeal has ruled that the legislation is unconstitutional. All of the decisions were appealed to the Supreme Court of Canada and a decision is pending. In the interim, all or parts of the GGPPA continue to apply as a backstop to those Provinces without adequate provincial greenhouse gas emissions regimes. Until a final court decision that applies throughout Canada is rendered, it is unclear what effect, if any, the GGPPA will have on Capstone's operations. Capstone continues to monitor potential implications of this issue on its business.

In Alberta, under the Technology Innovation and Emissions Reduction ("TIER") Regulation (previously the Carbon Competitiveness and Incentive Regulation or CCIR), regulated facilities that emit 100,000 tonnes or more of greenhouse gases

per year must meet provincial greenhouse gas emissions thresholds. If they cannot do so through operational improvements, they can purchase emissions offsets from qualified offset facilities. Once operating, Capstone's Alberta-based wind and solar development projects are all eligible to produce valid offsets under TIER.

In 2018, Ontario revoked its cap and trade program, therefore subjecting it to the provisions of the GGPPA. In 2019, Ontario introduced an Emissions Performance Standards ("EPS") program which applies to greenhouse gas emissions from large industrial emitters. Currently, only the registration and record keeping requirements of the EPS program are in effect. On September 20, 2020, the federal government accepted Ontario's EPS program as an alternative to the federal backstop. As such, for now, large industrial emitters in Ontario must still comply with the GGPPA.

Cardinal

There is currently no restriction on the amount of CO₂ that the Cardinal facility may emit, although the facility is required to report its CO₂ emissions under various federal and provincial regulations. Environmental regulations in Ontario also provide for, among other things, the reporting, allocation and retirement of NO_x emissions. NO_x 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 CO₂ 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, NO_x 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 Facilities

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

Solar Facilities

The operation of Capstone's solar facilities do not generate greenhouse gases.

Further Information

The outbreak of COVID-19, which was declared a pandemic by the World Health Organization, poses risks to its employees, contractors, suppliers, and other partners. The Corporation's priority is to protect the health and safety of our employees and the communities that it operates in. 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 2020 related party transactions and balances are primarily comprised of transactions with iCON Infrastructure LLP and subsidiaries ("iCON") and compensation to key management.

Shared Service Arrangement with iCON

Fees earned from iCON Infrastructure North America Inc. ("iCON NA"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2020, Capstone earned fees of \$230 from iCON NA (2019 - \$240).

Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Compensation awarded to key management consisted of salaries, directors' fees, short-term employee benefits and long-term incentive plans. Key management compensation is described in note 25 related party transactions in the consolidated financial statements for the year ended December 31, 2020.

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.

Corporate performance targets are set each year to provide management with an incentive to exceed annual budgeted financial results and other business performance measures 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 share appreciation rights ("SAR") plan, and had a discretionary LTIP (paid out in 2019), both of which are 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.	The SAR is directly linked to the long-term increase in the Corporation's value upon a sale transaction. The discretionary LTIP was not directly linked to performance.

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.

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	51,106	36,595	45,581	48,221	51,424	37,707	45,729	50,478
EBITDA	43,629	22,751	26,785	25,406	36,346	26,060	27,845	30,797
Net income (loss) ⁽¹⁾	9,995	(5,718)	(2,631)	(3,036)	3,496	(3,920)	2,064	77
Preferred dividends	613	613	613	613	613	613	613	613

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

FOURTH QUARTER HIGHLIGHTS

	Three months ended	
	Dec 31, 2020	Dec 31, 2019
Revenue	51,106	51,424
Operating expenses	(13,594)	(13,666)
Administrative expenses	(1,859)	(2,131)
Project development costs	1,086	(688)
Interest income	191	386
Other gains and (losses), net	6,650	1,021
Foreign exchange gain and (losses)	49	—
Earnings before interest, taxes, depreciation and amortization	43,629	36,346
Interest expense	(9,366)	(9,316)
Depreciation of capital assets	(17,868)	(17,635)
Amortization of intangible assets	(2,864)	(2,839)
Earnings (loss) before income taxes	13,531	6,556
Income tax recovery (expense)		
Current	(192)	(125)
Deferred	(3,032)	(2,127)
Total income tax recovery (expense)	(3,224)	(2,252)
Net income (loss)	10,307	4,304
Net income (loss) attributable to:		
Shareholders of Capstone	9,995	3,496
Non-controlling interest	312	808
	10,307	4,304

In the fourth quarter of 2020, Capstone's EBITDA and net income were higher than in 2019. Higher quarterly net income reflects:

- Higher other gains due to fair value increases on the Whitecourt embedded derivative due to lower forecasted Alberta Power Pool Prices partially offset by fair value decreases on interest rate swaps due to shifts in the long-term forecasts; and
- Project development costs recovery resulting from capitalizing SWNS transaction costs.

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, 2019, except for the narrow-scope amendments to IFRS 3, *Business Combinations*, effective January 1, 2020.

Refer to note 2 to the December 31, 2020 consolidated financial statements for a description of the standard and the impact of the adoption. The adoption of these accounting standards did not change any comparative figures presented in the consolidated financial statements.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any significant accounting changes that impact the Corporation. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 and IAS 16 on the Corporation. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

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

Accounting Estimates

The consolidated financial statements require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. 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 ⁽¹⁾
Capital assets, projects under development and intangible assets:	
<ul style="list-style-type: none"> • Purchase price allocations • Depreciation on capital assets • Amortization on intangible assets • Asset retirement obligations • Impairment assessments of capital assets, projects under development and intangible assets 	<ul style="list-style-type: none"> • Initial fair value of net assets. • Estimated useful lives and residual value. • Estimated useful lives. • Expected settlement date, amount and discount rate. • Future cash flows and discount rate.
Deferred income taxes	<ul style="list-style-type: none"> • Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	<ul style="list-style-type: none"> • Forward Alberta Power Pool prices, volatility, credit spreads and production projections.
Accounting for investments in non-wholly owned subsidiaries	<ul style="list-style-type: none"> • Determine how relevant activities are directed (either through voting rights or contracts); • Determine if Capstone has substantive or protective rights; and • Determine Capstone's ability to influence returns.

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

Management's estimates 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.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at December 31, 2020 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, 2020, 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, 2020.

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.

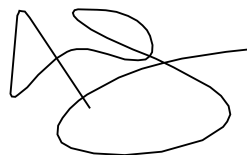
Management is also responsible for designing, maintaining and testing a system of internal controls over the financial reporting processes. Internal controls have been designed to provide reasonable assurance that the financial records are reliable, accurate and form a proper basis for the preparation of the consolidated financial statements. As of December 31, 2020, 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 pages.



David Eva
Chief Executive Officer



Andrew Kennedy
Chief Financial Officer

Toronto, Canada
March 4, 2021



Independent auditor's report

To the Shareholders of Capstone Infrastructure Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Capstone Infrastructure Corporation and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of Whitecourt embedded derivative <i>Refer to note 2 – Summary of Significant Accounting Policies and note 8 – Financial Instruments to the consolidated financial statements.</i> On March 2, 2015, Whitecourt Power Limited Partnership ("Whitecourt"), a wholly owned subsidiary of the Company, entered into a fuel supply agreement with Millar Western for	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• With the assistance of professionals with specialized skill and knowledge in the field of valuation, developed an independent point estimate of the fair value of the embedded derivative based on assumptions applied by management.

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Key audit matter

How our audit addressed the key audit matter

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 an embedded derivative that is measured at fair value.

The carrying value of the Whitecourt embedded derivative contract asset as at December 31, 2020 was \$13,493 thousand, which consists of \$16,671 thousand fair value and \$3,178 thousand of amortized contra asset.

The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including the forward Alberta Power Pool prices, volatility, credit spreads and production projections.

We considered this a key audit matter due to the significant judgments made by management when determining the fair value of the Whitecourt embedded derivative and the high degree of complexity in assessing audit evidence related to the estimates and assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

- Evaluated the reasonableness of significant assumptions, which included the following:
 - o Compared the forward Alberta Power Pool prices, volatility and credit spreads to external market data.
 - o Compared production projections to current and past performance of Whitecourt.
- Tested the underlying data used in developing the independent point estimate.
- Compared the independent point estimate to management's estimate to evaluate the reasonableness of management's fair value of the embedded derivative.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Eric Clarke.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 4, 2021

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Dec 31, 2020	Dec 31, 2019
Current assets			
Cash and cash equivalents	4	71,161	69,256
Restricted cash	4	45,445	24,577
Accounts receivable	5	25,850	23,837
Other assets	6	7,138	4,391
Current portion of derivative contract assets	8	—	1,398
		<u>149,594</u>	<u>123,459</u>
Non-current assets			
Loan receivable	7	5,468	702
Derivative contract assets	8	15,181	5,061
Capital assets	10	760,339	815,955
Projects under development	11	177,128	16,803
Intangible assets	12	132,415	143,553
Deferred income tax assets	13	135	112
Total assets		<u><u>1,240,260</u></u>	<u><u>1,105,645</u></u>
Current liabilities			
Accounts payable and other liabilities	14	33,205	24,005
Current portion of derivative contract liabilities	8	3,377	—
Current portion of lease liabilities	15	1,105	1,037
Current portion of long-term debt	16	154,360	45,293
		<u>192,047</u>	<u>70,335</u>
Long-term liabilities			
Derivative contract liabilities	8	14,346	5,773
Deferred income tax liabilities	13	83,895	85,878
Lease liabilities	15	34,828	27,440
Long-term debt	16	607,239	641,720
Liability for asset retirement obligation	17	10,249	9,849
Total liabilities		<u>942,604</u>	<u>840,995</u>
Equity attributable to shareholders' of Capstone		200,806	205,403
Non-controlling interest	19	96,850	59,247
Total liabilities and shareholders' equity		<u><u>1,240,260</u></u>	<u><u>1,105,645</u></u>
Commitments and contingencies	24		
Subsequent events	27		

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Equity attributable to shareholders of Capstone			NCI ⁽²⁾	Total Equity
		Share Capital	AOCI ⁽¹⁾	Retained Earnings (Deficit)		
Balance, December 31, 2018		134,290	—	71,842	50,086	256,218
Other comprehensive income (loss)		—	—	—	—	—
Net income for the period		—	—	1,717	2,509	4,226
Dividends declared to preferred shareholders of Capstone ⁽³⁾	18	—	—	(2,446)	—	(2,446)
Dividends declared to NCI	19	—	—	—	(4,073)	(4,073)
Convertible debenture repayments ⁽⁴⁾	19	—	—	—	(2,608)	(2,608)
Contributions from NCI ⁽⁵⁾	19	—	—	—	13,333	13,333
Balance, December 31, 2019		134,290	—	71,113	59,247	264,650
Other comprehensive income (loss)		—	(717)	—	(688)	(1,405)
Net income (loss) for the period		—	—	(1,390)	2,369	979
Dividends declared to preferred shareholders of Capstone ⁽³⁾	18	—	—	(2,490)	—	(2,490)
Dividends declared to NCI	19	—	—	—	(3,010)	(3,010)
Convertible debenture repayments ⁽⁴⁾	19	—	—	—	(2,420)	(2,420)
Contributions from NCI ⁽⁵⁾	19	—	—	—	41,352	41,352
Balance, December 31, 2020		134,290	(717)	67,233	96,850	297,656

(1) Accumulated other comprehensive income (loss) ("AOCI").

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

(3) Dividends declared to preferred shareholders of Capstone include current and deferred income taxes recovery of \$38 (2019 - recovery of \$6).

(4) Repayments are to the holder of the convertible debenture related to the Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing wind facilities. The convertible debenture provides the holder the option to convert its debt into a 50% equity interest in these projects.

(5) Includes contributions from Obton to Claresholm, from Firelight to Amherst, and from Sawridge to Buffalo Atlee.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

	Notes	For the year ended	
		Dec 31, 2020	Dec 31, 2019
Revenue	21	181,503	185,338
Operating expenses	22	(48,897)	(48,445)
Administrative expenses	22	(6,680)	(6,796)
Project development costs	22	(2,537)	(1,535)
Interest income	8	943	1,924
Other gains and (losses), net	23	(5,477)	(9,437)
Foreign exchange gain (loss)	8	(284)	(1)
Earnings before interest expense, taxes, depreciation and amortization		118,571	121,048
Interest expense	8	(36,260)	(37,679)
Depreciation of capital assets	10	(70,769)	(69,952)
Amortization of intangible assets	12	(11,337)	(11,308)
Earnings before income taxes		205	2,109
Income tax recovery (expense)			
Current		(277)	(967)
Deferred		1,051	3,084
Total income tax recovery (expense)	13	774	2,117
Net income and total comprehensive income		979	4,226
Attributable to:			
Shareholders of Capstone		(1,390)	1,717
Non-controlling interest	19	2,369	2,509
		979	4,226

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended	
		Dec 31, 2020	Dec 31, 2019
Gains (losses) on financial instruments designated as cash flow hedges		(1,405)	—
Other comprehensive income (loss)		(1,405)	—
Net income		979	4,226
Total comprehensive income		(426)	4,226
Comprehensive income attributable to:			
Shareholders of Capstone		(2,107)	1,717
Non-controlling interest	19	1,681	2,509
		(426)	4,226

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended	
		Dec 31, 2020	Dec 31, 2019
Operating activities:			
Net income		979	4,226
Deferred income tax expense (recovery)	13	(1,051)	(3,084)
Depreciation and amortization		82,106	81,260
Non-cash other gains and losses (net)		4,106	11,593
Amortization of deferred financing costs and non-cash financing costs		2,903	2,997
Change in non-cash working capital and foreign exchange		(6,958)	(2,540)
Total cash flows from operating activities		82,085	94,452
Investing activities:			
Investment in projects under development	11	(149,361)	(3,152)
Increase in restricted cash		(21,152)	(1,445)
Investment in capital assets	10	(9,380)	(24,630)
Advances of loans receivable	7	(4,000)	—
Total cash flows used in investing activities		(183,893)	(29,227)
Financing activities:			
Proceeds from issuance of long-term debt	16	171,603	20,200
Partner contribution		40,586	8,000
Repayment of long-term debt		(93,610)	(89,469)
Transaction costs on debt refinancing		(5,950)	(926)
Dividends paid to non-controlling interests	19	(3,010)	(4,073)
Dividends paid to preferred shareholders		(2,452)	(2,452)
Convertible debenture repayments	19	(2,420)	(2,608)
Lease principal payments		(1,034)	(982)
Total cash flows from (used in) financing activities		103,713	(72,310)
Increase (decrease) in cash and cash equivalents		1,905	(7,085)
Cash and cash equivalents, beginning of year		69,256	76,341
Cash and cash equivalents, end of year		71,161	69,256
Supplemental information:			
Interest paid		33,308	34,656
Taxes paid		1,090	2,103

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 in British Columbia, domiciled in Canada and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. All of Capstone's Class A common shares are owned by Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund advised by London, UK-based iCON Infrastructure LLP ("iCON"), who is the ultimate parent. Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") mission is to power society, protect the environment, contribute to communities, and create value for its shareholders. As at December 31, 2020, Capstone owns and operates an approximate net installed capacity of 541 megawatts across 24 facilities in Canada, including wind, hydro, solar, biomass, and natural gas power plants.

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") as issued by the International Accounting Standards Board ("IASB").

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 4, 2021.

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. 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,		Principal activity
		2020	2019	
Capstone Power Corp. ("CPC")	Canada	100%	100%	Power holding company
Erie Shores Wind Farm Limited Partnership ("Erie Shores")	Canada	100%	100%	Power generation
Glen Dhu Wind Energy LP ("Glen Dhu")	Canada	100%	100%	Power generation
SP Amherst Wind Power LP ("Amherst")	Canada	51%	51%	Power generation
Sky Generation L.P. ("SkyGen"), formerly Sky Generation Inc. ⁽¹⁾	Canada	100%	100%	Power generation
SWNS Wind LP ("SWNS") ⁽²⁾	Canada	100%	Nil	Power generation
GHG Wind Development LP ("GHG") ⁽³⁾	Canada	100%	100%	Power generation
Chi-Wiikwedong LP ("Goulais")	Canada	51%	51%	Power generation
Chi-Wiikwedong Holdings LP	Canada	100%	100%	Power holding company
Parc Éolien Saint-Philémon S.E.C. ("Saint-Philémon")	Canada	51%	51%	Power generation
Glance Bay Lingan Wind Power Ltd. ("Glance Bay")	Canada	100%	100%	Power generation
Grey Highlands Clean Energy Development LP ("Grey Highlands Clean")	Canada	100%	100%	Power generation
Watford Wind LP ("Watford")	Canada	100%	100%	Power generation
SR Wind Development LP ("Snowy Ridge") ⁽³⁾	Canada	100%	100%	Power generation
SLS Wind Development LP ("Settlers Landing") ⁽³⁾	Canada	100%	100%	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	100%	100%	Power generation
Cardinal Power of Canada, L.P. ("Cardinal")	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
Claresholm Solar LP ("Claresholm")	Canada	51%	51%	Development
Buffalo Atlee 1 Wind LP, Buffalo Atlee 2 Wind LP, Buffalo Atlee 3 Wind LP (collectively, "Buffalo Atlee")	Canada	75%	75%	Development
Riverhurst Wind Farm LP ("Riverhurst")	Canada	100%	100%	Development

(1) The SkyGen entity holds the Ferndale, Ravenswood, Proof Line and Skyway 8 operating wind facilities.

(2) On January 7, 2021, Capstone acquired the assets of new wind facilities which are now held in SWNS (formed in 2020). Refer to note 27 for more details.

(3) GHG, Snowy Ridge and Settlers Landing have convertible debentures outstanding which provide the holder the option to convert its debt into a 50% equity interest in these projects.

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.

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 3, Business Combinations ("IFRS 3") 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

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 and Restricted Cash

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. Restricted cash comprises amounts primarily restricted by credit agreements for specific uses including amounts funded against future maintenance, debt service, and construction costs at certain subsidiaries.

Loan Receivable

The Corporation has an interest-bearing financial asset that consists of a loan receivable, carried at amortized cost.

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 retired or replaced.

Right-of-use ("ROU") assets are primarily land leases, measured at cost comprising of the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date and any initial direct costs.

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	3 to 25 years
Vehicles	3 to 10 years
Property and plant:	
Operational structures	3 to 30 years
Operational properties	5 to 40 years
ROU assets	5 to 40 years

Leases

Capstone adopted IFRS 16, *Leases*, effective January 1, 2019. The adoption of this accounting standard resulted in the recognition of ROU assets and equal lease liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis, using a single discount rate for a portfolio of leases with reasonably similar characteristics.

Leased (ROU) Assets

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease that conveys to the Corporation the right to control the use of an underlying asset in return for payment. Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalized as an ROU asset on the date on which they are available for use and depreciated over the shorter of their estimated useful lives and the lease term. 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.

Lease Liabilities

Lease liabilities are measured at the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is virtually certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Capital lease payments are discounted using Capstone's incremental borrowing rate where the rate implicit in the lease is not readily determinable. The variable portion of lease payments not included in the lease liability will remain in operating expenses in the statement of income.

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 costs are measurable and it is probable the benefits will flow to Capstone.

Development cost capitalization criteria include the following and are dependent on the type of clearly identified project:

- The technical feasibility has been established or interconnection permit secured;
- Management has indicated its intention to construct, operate and maintain the project or land option(s) established;
- 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 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	18 to 20 years
Water rights	10 to 35 years

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.

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 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 Recognition

Revenue from Contracts with Customers

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 weighted average power pool rate.

The customer invoices and provides payments on a systematic basis based on fixed billing cycles. There are no significant financing components inherent in Capstone's contracts with customers. Capstone does not make significant judgments that affect the determination of the amount and timing of revenue from contracts with customers.

Other Revenue and Income Recognition

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

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

Expense Recognition

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 and acquisition-related business development expenses incurred at both the power segment and 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 its share appreciation rights ("SAR") plan 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 effective portion of the change in fair value of designated cash flow hedges less any amounts reclassified to interest and other expenses, net, in the period the underlying hedged item is also recorded in interest expense, net. 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.

Classification and Measurement

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 fair value through profit and loss ("FVTPL") 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:

IFRS 9 Classification	Significant Categories	Measurement
Amortized cost assets	<ul style="list-style-type: none"> • Cash and cash equivalents • Restricted cash • Accounts receivable • Loans receivable 	<ul style="list-style-type: none"> • At amortized cost using the effective interest method
Financial assets and liabilities at fair value through profit and loss	<ul style="list-style-type: none"> • Derivative contract assets • Derivative contract liabilities 	<ul style="list-style-type: none"> • At fair value with changes in fair value recognized in the consolidated statement of income
Other liabilities	<ul style="list-style-type: none"> • Accounts payable and other liabilities • Long-term debt 	<ul style="list-style-type: none"> • At amortized cost using the effective interest method

The classification of financial assets depends on Capstone's business objectives for managing the assets and whether contractual terms of the cash flows are considered solely payments of principal and interest. For assets measured at FVTPL, gains and losses will be recorded in the statement of income as incurred.

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 2020, the Corporation's derivatives include an embedded derivative in Whitecourt's fuel supply agreement, interest rate swaps and foreign currency contracts.

Changes in the fair values of derivative financial instruments are reported in the consolidated statement of income, except for cash flow hedges that meet the conditions for hedge accounting. Capstone designates its foreign currency contracts as hedges of foreign exchange risk associated with the cash flows of highly probable forecasted capital expenditure transactions. The portion of the gain or loss on the hedging instruments that are determined to be an effective hedge are recognized directly in other comprehensive income, and the ineffective portion in the consolidated statement of income. Gains or losses recognized in other comprehensive income are subsequently recognized in the statement of income in the same period in which the hedged underlying transaction or firm commitment is recognized in the statement of income.

In order to qualify for hedge accounting, the Corporation is required to document in advance the relationship between the item being hedged and the hedging instrument. The Corporation is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an

ongoing basis. This effectiveness testing is performed at the end of each reporting period to ensure that the hedge remains highly effective.

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

For financial assets measured at amortized cost, Capstone applies the simplified expected credit loss ("ECL") approach as permitted by IFRS 9. ECLs are estimated based on historical information, third-party accreditations such as credit ratings, and forward looking information regarding historical customer default rates. Capstone does not expect this to affect any measurement of financial assets and liabilities as its customer base is predominantly government entities.

If impairment exists on the financial asset, the Corporation recognizes an impairment loss in the consolidated statement of income. The loss is measured as the difference between the carrying and the present value of the expected future cash flows. 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.

Impairment of cash and cash equivalents and restricted cash are evaluated by reference to the credit quality of the underlying financial institution.

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.

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"), interest income, other gains and losses (net), and foreign exchange gains and losses. EBITDA represents Capstone's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their age, technology, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Changes to Accounting Policies

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2019 consolidated financial statements, except for the narrow-scope amendments to IFRS 3, *Business Combinations*, which were adopted for use on transactions effective January 1, 2020. The amendments to the definition of a business are intended to assist companies in determining whether a transaction should be accounted for as a business combination or a group of assets, and are applied prospectively.

Future Accounting Changes

The IASB has not issued any significant accounting standard changes that impact the Corporation. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 and IAS 16 on the Corporation. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

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

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
<p>Capital assets, projects under development and intangible assets – carrying values</p> <p>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.</p>	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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

Area of Significance	Critical Estimate	Critical Judgment
<p>Deferred income taxes</p> <p>Estimates in the determination of deferred income taxes affect asset and liability balances.</p>	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Timing of reversal of temporary differences Tax rates Current and future taxable income
<p>Financial instrument fair value measurements</p> <p>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.</p>	<ul style="list-style-type: none"> 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. <p>A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate.</p>	<ul style="list-style-type: none"> Forward Alberta Power Pool prices, volatility, credit spreads and production projections
<p>Accounting for investments in non-wholly owned subsidiaries</p> <p>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.</p>	<ul style="list-style-type: none"> No critical estimates are involved in determining control. 	<ul style="list-style-type: none"> Determine how relevant activities are directed (either through voting rights or contracts) Determine if Capstone has substantive or protective rights Determine Capstone's ability to influence returns

NOTE 3. ACQUISITIONS

(A) Watford Wind Facility

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

(B) Claresholm Solar Project

On November 19, 2019, Capstone acquired a 51% interest in the 132MW Claresholm solar development project, through a series of transactions. The remaining 49% interest is indirectly held by Denmark-based Obton A/S ("Obton"). The project was acquired for \$15,951, which includes \$4,820 of acquired cash, the reimbursement of certain pre-construction expenses, transaction costs, and consideration that becomes payable over time and is recorded in accounts payable and other liabilities due to the expected timing of payment.

The project has secured regulatory approvals from the Alberta Utilities Commission and has executed a 74MW power purchase agreement with TC Energy Corporation.

In 2020, Claresholm executed material project contracts for the construction of the facility and commenced construction. These capital expenditures are funded by a combination of project financing, which was executed on July 9, 2020 (see note 16 Long-Term Debt), and equity contributions from the partners.

The accounting for Claresholm is treated as an asset acquisition in accordance with IFRS 3. In addition, Capstone consolidates Claresholm as defined in IFRS 10, with Obton's interest treated as NCI.

NOTE 4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2020	Dec 31, 2019
Debt service and maintenance reserves	22,351	15,625
Construction escrow	23,094	8,875
Cash on deposit	—	77
Restricted cash	45,445	24,577
Unrestricted cash and cash equivalents	71,161	69,256
	<u>116,606</u>	<u>93,833</u>

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 16).

NOTE 5. ACCOUNTS RECEIVABLE

	Dec 31, 2020	Dec 31, 2019
Power	25,716	23,776
Corporate	134	61
	<u>25,850</u>	<u>23,837</u>

For both periods presented, accounts receivable 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 9b and 9c for further detail of credit risk and economic dependence.

NOTE 6. OTHER ASSETS

	Dec 31, 2020	Dec 31, 2019
Prepaid expenses	4,977	2,291
Inventory of spare parts and consumable supplies, net ⁽¹⁾	1,661	1,600
Investments in Genalta ⁽²⁾	500	500
	<u>7,138</u>	<u>4,391</u>

(1) No inventory obsolescence provision is required as at December 31, 2020 (2019 - nil).

(2) Capstone has an investment in the common shares of Genalta Power Inc. ("Genalta").

The cost of inventories recognized in operating expenses for the year ended December 31, 2020 was \$407 (2019 - \$620).

NOTE 7. LOANS RECEIVABLE

	Dec 31, 2020	Dec 31, 2019
Genalta ⁽¹⁾	4,000	—
Sawridge First Nation ("Sawridge") ⁽²⁾	1,468	702
	<u>5,468</u>	<u>702</u>

(1) Capstone issued a \$4,000 convertible debenture to Genalta on October 30, 2020. The loan receivable bears a fixed 12% rate of interest, with an option to convert into equity in Genalta.

(2) Capstone has provided Sawridge, its 25% partner on the Buffalo Atlee wind development projects with a loan for their pro rata share of project costs. The loan receivable bears a fixed interest rate of 9%. Interest and principal are to be repaid from the project's excess cash flows and can be repaid at any time, with a final maturity date 30 years from the COD.

The estimated fair value of the loans receivable as at December 31, 2020 approximates the carrying value.

NOTE 8. FINANCIAL INSTRUMENTS

Financial instruments consist of amortized cost assets, other liabilities and financial instruments at fair value through profit and loss.

Amortized Cost Assets

Cash and cash equivalents, restricted cash	Balances are invested in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less. As at December 31, 2020, the carrying values of cash and cash equivalents and restricted cash are considered to approximate their fair values due to their short-term nature.
Accounts receivable	Are trade receivables with carrying values that approximate their fair values.
Loans receivable	Are measured at amortized cost using the effective interest rate method. The fair value of the Corporation's loans receivable may differ from the carrying value due to changes in interest rates and the underlying risk associated with the debtor. It is determined using a discounted cash flow analysis.

Other Liabilities

Accounts payable and other liabilities	Are short-term liabilities with carrying values that approximate their fair values.
Long-term debt	Balances are 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: <ul style="list-style-type: none"> Floating rate debt approximates its carrying value. Fixed-rate debt is determined through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an estimated margin.

Financial Instruments at Fair Value through Profit and Loss ("FVTPL")

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 comprise an embedded derivative that is measured at fair value and results 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.

Interest rate swaps

These contracts to effectively fix the interest cost on long-term debt with variable rates, specifically for Cardinal, GHG, Grey Highlands Clean, Snowy Ridge, Settlers Landing and Claresholm. In addition, an interest rate swap was entered into for the acquisition debt of SWNS (refer to note 27). Under these agreements, the projects receive or will receive Canadian Dollar Offered Rate ("CDOR") in exchange for fixed rate (refer to note 9a).

Foreign currency contracts

These contracts to mitigate the currency risk related to US dollar purchases.

Fair value determination

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

Whitecourt embedded derivative	<ul style="list-style-type: none"> The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including the forward Alberta Power Pool prices, volatility, credit spreads and production projections.
Interest rate swaps	<ul style="list-style-type: none"> Fair value fluctuates with changes in market interest rates. A discounted cash flow valuation based on a forward interest rate curve was used to determine their fair value.
Foreign currency contracts	<ul style="list-style-type: none"> Fair value fluctuate with changes in the US dollar to the Canadian dollar. A discounted cash flow valuation based on a forward USD/CAD exchange rate curve was used to determine their fair value.

Due to the lack of observable market quotes on the Whitecourt embedded derivative, 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.

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

Recurring measurements:	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Dec 31, 2020	Dec 31, 2019
Derivative contract assets:					
Whitecourt embedded derivative ⁽¹⁾	—	—	13,493	13,493	3,414
Interest rate swap contracts	—	1,688	—	1,688	3,045
Less: current portion	—	—	—	—	(1,398)
	—	1,688	13,493	15,181	5,061
Derivative contract liabilities:					
Interest rate swap contracts	—	17,723	—	17,723	5,773
Less: current portion	—	(3,377)	—	(3,377)	—
	—	14,346	—	14,346	5,773

(1) Consists of a \$16,671 fair value asset and \$3,178 amortized contra-asset, set up on inception (2019 - \$6,945 asset and \$3,531 contra-asset, respectively).

Fair value continuity for Level 3 inputs

	2020	2019
Opening balance, January 1,	3,414	7,478
Change in value of the embedded derivative included in other gains and (losses) in net income	6,338	(2,262)
Settlements during the period	3,388	(2,156)
Amortization of inception value included in other gains and (losses) in net income	353	354
Closing balance, December 31,	13,493	3,414

Income and Expenses from Financial Instruments

	Dec 31, 2020	Dec 31, 2019
Amortized cost assets:		
Interest income on cash and cash equivalents, restricted cash	763	1,924
Interest income on loans receivable	180	—
	943	1,924
Other liabilities:		
Interest expense on long-term debt ⁽¹⁾	(36,260)	(37,679)
Financial instruments at FVTPL (refer to note 23):		
Whitecourt embedded derivative	13,466	(1,909)
Interest rate swap contracts	(13,306)	(6,956)
Changes in derivative financial instruments fair value	160	(8,865)
Losses on debt extinguishment	(5,248)	—

(1) Interest expense on the long-term debt for 2020 of \$36,260 includes amortization of deferred financing fees, interest expense on lease liabilities and accretion on liability for asset retirement obligations of \$2,890, \$1,964 and \$503, respectively (2019 - \$2,514, \$1,716 and \$478).

NOTE 9. 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 2020, both Cardinal and Whitecourt's revenues are exposed to price risk as follows:

- Cardinal earns a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so.
- Whitecourt sells all electricity generated into the Alberta Power Pool. 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	Credit Margin	Effective Interest Rate
Grey Highlands Clean	Sep 30, 2036	64,650	1.22%	1.63%	2.85%
GHG	Jun 30, 2021	59,913	1.34% - 1.45%	1.63%	2.97% - 3.08%
GHG	Jun 30, 2034	57,363	3.04% - 3.17%	1.63%	4.67% - 4.80%
Snowy Ridge	Dec 31, 2021	25,004	1.13%	1.63%	2.76%
Snowy Ridge	Dec 31, 2034	21,011	2.07%	1.63%	3.70%
Settlers Landing	Jun 30, 2022	21,689	1.71%	1.63%	3.34%
Settlers Landing	Jun 30, 2035	17,719	2.93%	1.63%	4.56%
Claresholm	Jun 30, 2021	29,668	0.64%	2.75%	3.39%
Claresholm	Sep 30, 2030	57,623	1.06%	2.75%	3.81%
Cardinal	Dec 30, 2022	73,522	1.24% - 2.00%	1.25%	2.49% - 3.25%
Cardinal	Jun 30, 2034	66,080	2.44% - 2.82%	1.25%	3.69% - 4.07%
SWNS	Dec 31, 2036	87,052	1.16%	1.75%	2.91%

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, loan 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 and government incentive programs by counterparty:

As at	Dec 31, 2020	Dec 31, 2019
Independent Electricity System Operator ("IESO")	13,064	11,550
Nova Scotia Power Inc. ("NSPI")	3,380	3,728
Natural Resources Canada Inc. ("NRC")	1,008	1,143
Ontario Electricity Financial Corporation ("OEFC")	660	1,350
Government of Alberta	—	2,210
Other ⁽¹⁾	7,738	3,856
	<u>25,850</u>	<u>23,837</u>

(1) Other receivables includes HST recoverable from CRA for 2020 of \$3,936, primarily for Claresholm construction (2019 - \$463).

There are no accounts receivable that are past due. Since the IESO, OEFC, and NRC are government agencies, and NSPI is regulated by the provincial government, management considers credit risk to be minimal.

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, 2020	Dec 31, 2019
IESO	122,145	121,908
NSPI	31,786	32,595
Hydro Quebec	8,403	8,382
OEFC	7,417	7,986
Other	11,752	14,467
	<u>181,503</u>	<u>185,338</u>

(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. As at December 31, 2020, Capstone's current liabilities exceeded the current assets. This was due to upcoming project debt maturities, which Capstone expects to refinance or extend with existing lenders.

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 16 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 undiscounted maturities of the Corporation's financial liabilities as at December 31, 2020 were as follows:

Financial Liabilities	Within one year	One year to five years	Beyond five years	Total
Accounts payable and other liabilities	33,205	—	—	33,205
Lease liabilities ⁽¹⁾	2,700	12,449	53,543	68,692
Long-term debt				
Principal payments	154,360	213,899	409,030	777,289
Interest payments	29,151	94,253	93,629	217,033
	<u>183,511</u>	<u>308,152</u>	<u>502,659</u>	<u>994,322</u>

(1) Includes the fixed portion of minimum lease payments.

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2020, 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, 2020 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, and the energy contracts that are financial instruments in place at December 31, 2020 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under IFRS 9.

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, as 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 derivative's significant unobservable inputs:

Dec 31, 2020	Unobservable inputs	Estimated input	Relationship of input to fair value
\$13,493	Forward Alberta Power Pool prices	From \$35/MWh to \$119/MWh over the next 9 years.	A reasonably possible increase in estimated forward prices of 5% or a decrease of 5%, would cause fair value to decrease by \$2,671 and increase by \$2,582, 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:

For the year ended Dec 31, 2020	Carrying Amount	Interest Rate Risk (0.5)%	0.5%
Financial liabilities: ⁽¹⁾			
Interest rate swap liabilities, net	(16,035)	(32,781)	(4,899)

(1) Financial liabilities in long-term debt are not included as all long-term debt is either fixed-rate debt or variable rate debt that is covered by a swap contract for fixed-rate debt. The outstanding balance on the CPC term credit facility was nil.

NOTE 10. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2020	Additions	Disposals	Dec 31, 2020
Cost				
Land	1,084	—	—	1,084
ROU assets (refer to note 15)	29,460	8,490	—	37,950
Equipment and vehicles	12,035	390	(82)	12,343
Property and plant	1,239,736	6,724	(2,968)	1,243,492
	1,282,315	15,604	(3,050)	1,294,869
Accumulated depreciation				
ROU assets	(1,658)	(1,781)	—	(3,439)
Equipment and vehicles	(7,896)	(468)	72	(8,292)
Property and plant	(456,806)	(68,520)	2,527	(522,799)
	(466,360)	(70,769)	2,599	(534,530)
Net carrying value	815,955	(55,165)	(451)	760,339

	Jan 1, 2019	Additions	Disposals	Dec 31, 2019
Cost				
Land	1,084	—	—	1,084
ROU assets (refer to note 15)	28,201	1,259	—	29,460
Equipment and vehicles	11,012	1,023	—	12,035
Property and plant	1,220,899	22,207	(3,370)	1,239,736
	1,261,196	24,489	(3,370)	1,282,315
Accumulated depreciation				
ROU assets	—	(1,658)	—	(1,658)
Equipment and vehicles	(7,473)	(423)	—	(7,896)
Property and plant	(391,723)	(67,871)	2,788	(456,806)
	(399,196)	(69,952)	2,788	(466,360)
Net carrying value	862,000	(45,463)	(582)	815,955

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

For the year ended	Dec 31, 2020	Dec 31, 2019
Additions	15,604	24,489
Adjustment for non-cash ROU asset additions	(8,490)	(1,259)
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	2,266	1,400
Cash additions	9,380	24,630

NOTE 11. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2020	2019
As at January 1	16,803	1,595
Asset acquisition ⁽¹⁾	—	11,131
Capitalized costs during the year	160,325	4,077
As at December 31 ^{(2), (3)}	177,128	16,803

(1) On November 19, 2019, Capstone acquired 51% of the Claresholm solar project; the remaining 49% is held by Obton. Refer to note 3 for details.

(2) Includes \$1,335 of capitalized borrowing costs for 2020, during the construction of Claresholm (2019 - nil).

(3) The balance primarily includes costs to develop the Claresholm solar project, and the Riverhurst and Buffalo Atlee wind projects (2020 - \$155,038, \$5,362 and \$5,233, respectively, and 2019 - \$13,338, \$1,307, and \$2,158, respectively), as well as other early stage projects.

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

For the year ended	Dec 31, 2020	Dec 31, 2019
Additions	160,325	4,077
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(10,964)	(925)
Cash additions	149,361	3,152

NOTE 12. INTANGIBLE ASSETS

	Jan 1, 2020	Additions	Dec 31, 2020
Assets			
Computer software	264	199	463
Electricity supply and other contracts	171,407	—	171,407
Water rights	73,018	—	73,018
	244,689	199	244,888
Accumulated amortization			
Computer software	(262)	(3)	(265)
Electricity supply and other contracts	(74,382)	(9,218)	(83,600)
Water rights	(26,492)	(2,116)	(28,608)
	(101,136)	(11,337)	(112,473)
Net carrying value	143,553	(11,138)	132,415

	Jan 1, 2019	Additions	Dec 31, 2019
Assets			
Computer software	264	—	264
Electricity supply and other contracts	171,407	—	171,407
Water rights	73,018	—	73,018
	244,689	—	244,689
Accumulated amortization			
Computer software	(259)	(3)	(262)
Electricity supply and other contracts	(65,193)	(9,189)	(74,382)
Water rights	(24,376)	(2,116)	(26,492)
	(89,828)	(11,308)	(101,136)
Net carrying value	154,861	(11,308)	143,553

NOTE 13. INCOME TAXES

(A) Deferred Income Tax

As at	Dec 31, 2020	Dec 31, 2019
Deferred income tax assets	135	112
Deferred income tax liabilities	(83,895)	(85,878)
Net deferred income tax liability	(83,760)	(85,766)

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, 2020	Dec 31, 2019
Non-capital loss carry forwards	19,678	21,707
Asset retirement obligations	3,731	2,561
Other	2,631	3,342
Financial Instruments	648	—
Deferred income tax assets	26,688	27,610
Capital assets	(74,403)	(74,032)
Intangibles	(33,200)	(36,536)
Loan premium and deferred financing costs	(2,293)	(2,120)
Other	(552)	(503)
Financial instruments	—	(185)
Deferred income tax liabilities	(110,448)	(113,376)
Net deferred income tax liability	(83,760)	(85,766)

A continuity of the net deferred income tax liability follows:

	2020	2019
Net deferred income tax liability as at January 1	(85,766)	(89,837)
Recorded in earnings	1,051	3,084
Other	955	987
Net deferred income tax liability as at December 31	(83,760)	(85,766)

(B) Timing of Deferred Income Tax Reversal

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

As at	Dec 31, 2020	Dec 31, 2019
Within 12 months	29,329	(3,682)
After more than 12 months	(113,089)	(82,084)
Net deferred income tax liability	(83,760)	(85,766)

(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, 2020	Dec 31, 2019
Canadian – non-capital losses	2025 – 2040	75,387	62,444	137,831	144,082
US – non-capital losses	2023 – 2027	—	19,292	19,292	19,730
Canadian – capital losses	No expiry	—	296	296	282

The Corporation also has \$1,916 of unrecognized deferred tax assets, which have not been recognized as at December 31, 2020 (2019 - \$2,045).

(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, 2020	Dec 31, 2019
Income (loss) before income taxes ⁽¹⁾	205	2,109
Statutory income tax rate	25.78 %	26.70 %
Income tax expense based on statutory income tax rate	53	563
Permanent differences	469	180
Tax rate differentials	(947)	(2,903)
Change in unrecognized deferred tax assets	448	206
Other	(797)	(163)
Total income tax expense (recovery)	(774)	(2,117)

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

The statutory income tax rate of 25.78% (2019 - 26.70%) changes in response to Capstone's allocation of taxable income to different tax jurisdictions, as well as the decrease in the Alberta and Nova Scotia statutory tax rates that were substantively enacted in 2020.

(E) Current Income Taxes

Current income taxes payable of \$2,050 are included in accounts payable and other liabilities on the statement of financial position (refer to note 14) (2019 - \$1,898).

NOTE 14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Dec 31, 2020	Dec 31, 2019
Dividends payable	409	409
Income taxes payable	2,050	1,898
Other accounts payable and accrued liabilities	30,746	21,698
	33,205	24,005

Income taxes payable	Dec 31, 2020	Dec 31, 2019
Canadian Renewable and Conservation Expense ("CRCE") penalties ⁽¹⁾	1,647	1,663
Taxes payable on preferred share dividends	164	164
Current income taxes payable	239	71
	2,050	1,898

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

NOTE 15. LEASE LIABILITIES

	2020	2019
As at January 1	28,477	28,201
Additions ⁽¹⁾ (refer to note 10)	8,490	1,259
Interest expense	1,964	1,716
Lease payments	(2,998)	(2,699)
Lease liabilities	35,933	28,477
Less: current portion	(1,105)	(1,037)
As at December 31	34,828	27,440

(1) Includes \$8,490 of additions for Claresholm (2019 - \$1,259 for Watford).

NOTE 16. LONG-TERM DEBT

(A) Power

As at	Dec 31, 2020		Dec 31, 2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC credit facilities	—	—	—	—
Project debt				
Wind	500,018	468,554	497,931	479,784
Solar	169,124	165,179	68,044	70,441
Gas	73,522	73,522	77,176	77,176
Hydros	85,501	70,034	78,897	71,895
Power	828,165	777,289	722,048	699,296
Less: deferred financing costs		(15,690)		(12,283)
Long-term debt		761,599		687,013
Less: current portion		(154,360)		(45,293)
		<u>607,239</u>		<u>641,720</u>

Capstone has a cumulative \$70,098 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, 2020	Dec 31, 2019
Total available credit - all facilities			120,500	120,500
Amount drawn				
Term credit facility ⁽²⁾	2.08%	Dec 15, 2023	—	—
Letter of credit facility ⁽³⁾			41,840	45,864
Remaining available credit			<u>78,660</u>	<u>74,636</u>

(1) The effective rate was 2.08% in 2020 (2019 - 3.92%) based on a variable rate plus an applicable margin.

(2) On February 25, 2020, the remaining CPC term credit facility was converted into the revolving credit facility.

(3) As at December 31, 2020, Capstone had 17 letters of credit authorized under the revolving credit facility.

As at December 31, 2020, the revolving credit facility capacity was \$120,500, of which \$41,840 supports letters of credit for the operating facilities.

Under the 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 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, 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.

(ii) Wind

Project debt	Dec 31, 2020	Dec 31, 2019
Glen Dhu	70,272	76,884
Grey Highlands Clean	64,650	44,465
Goulais	62,423	65,433
GHG	59,169	63,311
Erie Shores	47,818	54,944
Saint-Philémon	46,596	48,506
Amherst	30,478	32,756
Snowy Ridge	24,880	26,469
Settlers Landing	22,120	23,258
Skyway 8 ⁽¹⁾	16,269	16,979
SkyGen ⁽¹⁾	14,921	16,803
Glace Bay	8,958	9,976
	<u>468,554</u>	<u>479,784</u>

(1) SkyGen project debt includes financing related to the Ferndale, Ravenswood, and Proof Line facilities. Skyway 8 was financed separately.

Glen Dhu	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	5.33%	Dec 31, 2030	70,272	76,884

(1) Glen Dhu is required to set aside \$5,310 as letters of credit to fund its debt service reserve.

Grey Highlands Clean	Interest Rate ⁽³⁾	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	2.85%	Jun 17, 2024	64,650	44,465

- (1) Grey Highlands Clean is required to set aside \$2,540 as letters of credit to cover the debt service reserve.
(2) Grey Highlands Clean is required to set aside \$526 as restricted cash to fund its operating and maintenance reserve.
(3) As at December 31, 2020, Grey Highlands Clean had swap contracts to convert interest to a fixed rate (See note 9a).
(4) On June 17, 2020, the Grey Highlands Clean term loan was refinanced with its existing lenders, increasing its term loan by \$22,638 to \$66,096 and extending the term by 4 years to June 17, 2024, while locking in lower long-term interest rates through an interest rate swap. The new project debt fully amortizes over the remainder of the facility's PPA, which expires in 2036 and the effective fixed interest rate for the duration of the term loan is 2.85%. In accordance with IFRS 9, the refinancing of the existing term loan was recognized as a debt extinguishment, as the instruments are substantially different. This resulted in the capitalization of \$1,400 of related transaction costs on the full term loan. The previously capitalized transaction costs of \$489 were derecognized and the costs associated with exiting the previous swap contract of \$4,759 were recorded in other gains and losses.

Goulais	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	5.16%	Sep 30, 2034	62,423	65,433

- (1) Goulais is required to set aside \$3,504 as restricted cash to cover the debt service reserve.
(2) Goulais is required to set aside \$1,000 as letters of credit to cover the operating and maintenance reserves.

GHG	Interest Rate ⁽³⁾	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	3.08%	Aug 26, 2021	59,169	63,311

- (1) GHG has \$3,200 as letters of credit to cover the debt service reserve.
(2) GHG is required to set aside \$909 as restricted cash to fund its operating and maintenance reserve.
(3) As at December 31, 2020, GHG had swap contracts to convert interest to a fixed rate (See note 9a).

Erie Shores ⁽³⁾	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Tranche A	5.96%	Apr 1, 2026	28,802	33,104
Tranche C	6.15%	Apr 1, 2026	19,016	21,840
			<u>47,818</u>	<u>54,944</u>

- (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 \$5,148 as restricted cash and \$550 as letters of credit against the borrowing capacity of the 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, 2020	Dec 31, 2019
Term loan	5.49%	May 31, 2034	46,596	48,506

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

Amherst	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	6.20%	Apr 30, 2032	30,478	32,756

- (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 CPC revolving credit facility to cover the debt service and maintenance reserves.

Snowy Ridge	Interest Rate ⁽³⁾	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	2.75%	Dec 23, 2021	24,880	26,469

- (1) Snowy Ridge is required to set aside \$1,300 as letters of credit to cover the debt service reserve.
(2) Snowy Ridge is required to set aside \$580 as restricted cash to fund its operating and maintenance reserve.
(3) As at December 31, 2020, Snowy Ridge had swap contracts to convert interest to a fixed rate (See note 9a).

Settlers Landing	Interest Rate ⁽³⁾	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	3.34%	Aug 31, 2022	22,120	23,258

- (1) Settlers Landing is required to set aside \$1,100 as letters of credit to cover the debt service reserve.
(2) Settlers Landing is required to set aside \$401 as restricted cash to fund its operating and maintenance reserve.
(3) As at December 31, 2020, Settlers Landing had swap contracts to convert interest to a fixed rate (See note 9a).

Skyway 8	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	4.90%	Jul 17, 2021	16,269	16,979

- (1) Skyway 8 is required to set aside \$766 as restricted cash to cover the debt service reserve.

SkyGen	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Term loans	4.90%	July 17, 2021	14,921	16,803

- (1) SkyGen is required to set aside \$1,334 as restricted cash to cover the debt service reserve.

Glace Bay	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	5.99%	Mar 15, 2027	4,972	5,588
Term loan	4.72%	Oct 1, 2032	3,986	4,388
			<u>8,958</u>	<u>9,976</u>

- (1) Glace Bay is required to set aside \$1,891 as restricted cash to cover the debt service and operating and maintenance reserves.

(iii) Solar

Project debt	Dec 31, 2020	Dec 31, 2019
Amherstburg	91,679	70,441
Claresholm	73,500	—
	<u>165,179</u>	<u>70,441</u>

Amherstburg	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Senior term loan	3.49%	Dec 31, 2030	64,672	70,441
Subordinated term loan ⁽²⁾	3.78%	Jun 30, 2031	27,007	—
			<u>91,679</u>	<u>70,441</u>

- (1) Amherstburg is required to set aside \$5,786 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves.
(2) On October 7, 2020, the ASP term loan was refinanced with its existing lenders, increasing its term loan by adding a second tranche of subordinated debt for \$27,007. The new project debt carries a fixed interest rate of 3.78% and fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2031. In accordance with IFRS 9, \$278 of transaction costs were capitalized and will amortize over the term of the loan.

Claresholm	Interest Rate ⁽²⁾	Maturity	Dec 31, 2020	Dec 31, 2019
Construction facility	4.71%	Dec 31, 2021	73,500	—

- (1) Claresholm is required to set aside \$14,549 as restricted cash to cover construction holdbacks with vendors.
(2) As at December 31, 2020, Claresholm had swap contracts to convert interest to a fixed rate (See note 9a).

On July 9, 2020, Claresholm entered into a credit agreement providing up to \$115,000 of non-recourse debt for the construction of the solar facility, which was fully available to the project as of November 5, 2020.

The construction facility matures no later than December 31, 2021 and upon achieving commercial operation, the debt converts to a term loan, amortizing over twenty years. The debt is comprised of two tranches, up to \$60,000 from bank lenders at a floating interest rate and up to \$55,000 from long-term fixed rate lenders with the debts maturing on the fifth and twelfth anniversaries, respectively.

To mitigate the interest rate risk from the bank lenders, Claresholm has swap contracts to convert the floating interest rate obligations to a fixed rate.

Interest during construction is capitalized to projects under development, which includes \$1,335 as of December 31, 2020.

(iv) Gas

	Interest Rate ⁽²⁾	Maturity	Dec 31, 2020	Dec 31, 2019
Term loan	2.69%	Apr 1, 2026	73,522	77,176

- (1) Cardinal is required to set aside \$1,064 as restricted cash to cover the operating and maintenance reserves and \$2,892 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2020, Cardinal had swap contracts to convert interest to a fixed rate (See note 9a).

(v) Hydros

	Interest Rate	Maturity	Dec 31, 2020	Dec 31, 2019
Senior secured bonds	4.56%	Jun 30, 2040	51,550	53,109
Subordinated secured bonds	7.00%	Jun 30, 2041	18,484	18,786
			<u>70,034</u>	<u>71,895</u>

(1) The hydro facilities are required to set aside \$11,438 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves.

(B) Long-term Debt Covenants

For the year ended and as at December 31, 2020, 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	154,360	213,899	409,030	777,289

NOTE 17. 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, 2020	Dec 31, 2019
Assumptions:		
Expected settlement date ⁽¹⁾	2021– 2078	2020– 2078
Inflation rate	2.0 %	2.0 %
Credit adjusted discount rate	4.75% - 5.75%	4.75% - 5.75%
Balance, beginning of year	9,849	9,442
Asset acquisition	—	173
Revision of estimates	(103)	(244)
Accretion expense	503	478
Balance, end of year	<u>10,249</u>	<u>9,849</u>

(1) Projects with PPAs expiring in 2021 are expected to continue to operate beyond the current expiry date.

NOTE 18. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Dec 31, 2020	Dec 31, 2019
Common and Class A shares	62,270	62,270
Preferred shares	72,020	72,020
	<u>134,290</u>	<u>134,290</u>

(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. As at December 31, 2020 and 2019, there were 304,609 common and class A shares issued and outstanding, with a carrying value of \$62,270.

(B) Preferred Shares

Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares. As at December 31, 2020 and 2019, 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 2020 or 2019 in respect of the Corporation's common shareholders.

For the year ended	Dec 31, 2020	Dec 31, 2019
Preferred shares declared ^{(1), (2)}	2,490	2,446

(1) Includes \$38 of deferred income taxes recovery for the year ended December 31, 2020 (2019 - \$6 recovery).

(2) Capstone has included \$409 of accrued preferred dividends as declared on November 9, 2020 (2019 - \$409).

(D) Capital Management

The Corporation manages its capital 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 16.

NOTE 19. NON-CONTROLLING INTERESTS

(A) Non-controlling Interests

Non-controlling interests represent ownership interests by third parties in businesses consolidated by Capstone. Capstone's entities with non-controlling interests and Capstone's partners as at December 31, 2020 were:

- Claesholm is 49% owned by Obton A/S ("Obton").
- Goulais is 49% owned by Batchewana First Nation ("BFN").
- GHG, Snowy Ridge ("SR") and Settlers Landing ("SLS") have a debenture with a subsidiary of One West Holdings Ltd. ("Concord"), convertible into a 50% ownership interest in the projects.
- Amherst is 49% owned by Firelight Infrastructure Partners LP ("Firelight").
- Buffalo Atlee is 25% owned by Sawridge First Nation ("Sawridge").
- Saint-Philémon is 48.9% owned by Municipalité Régionale de Comté de Bellechasse and 0.1% owned by Municipalité de Saint-Philémon.

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:

	Obton's interest in Claesholm ⁽¹⁾	BFN's interest in Goulais ⁽²⁾	Concord's interest in GHG, SR & SLS	Firelight's interest in Amherst	Sawridge's interest in Buffalo Atlee	Municipal interest in Saint- Philémon	Total
January 1, 2019	—	17,678	22,586	8,928	—	894	50,086
NCI portion of net income	—	1,253	—	754	—	502	2,509
Dividends declared	—	(1,265)	—	(1,274)	—	(1,534)	(4,073)
Convertible debenture repayments	—	—	(2,608)	—	—	—	(2,608)
Contributions from NCI	12,631	—	—	—	702	—	13,333
As at December 31, 2019	12,631	17,666	19,978	8,408	702	(138)	59,247
NCI portion of net income	(202)	1,461	—	827	—	283	2,369
Dividends declared	—	(1,265)	—	(931)	—	(814)	(3,010)
Convertible debenture repayments	—	—	(2,420)	—	—	—	(2,420)
Contributions from NCI	39,949	—	—	637	766	—	41,352
AOCI attributable to NCI	(688)	—	—	—	—	—	(688)
As at December 31, 2020	51,690	17,862	17,558	8,941	1,468	(669)	96,850

(1) Includes \$4,631 in development assets contributed on the acquisition date and \$47,949 of subsequent cash contributions.

(2) Net income is allocated based on pro-rata share of distributions.

(B) Summarized Information for Material Partly Owned Subsidiaries

As at Summarized Statements of Financial Position	December 31, 2020					
	Claresholm	Goulais	GHG, SR & SLS	Amherst	Buffalo Atlee	Saint- Philémon
Assets						
Current	36,343	2,459	181	3,128	258	2,082
Non-current	168,471	50	68,704	49,409	5,234	48,070
Liabilities						
Current	(16,619)	(291)	(7)	(3,121)	(268)	(2,435)
Non-current	(77,484)	(431)	—	(28,828)	—	(45,551)
Total equity	110,711	1,787	68,878	20,588	5,224	2,166
Attributable to:						
Shareholders of Capstone	59,021	(16,075)	51,320	11,647	3,756	2,835
NCI	51,690	17,862	17,558	8,941	1,468	(669)
	110,711	1,787	68,878	20,588	5,224	2,166

As at Summarized Statements of Financial Position	December 31, 2019					
	Claresholm	Goulais	GHG, SR & SLS	Amherst	Buffalo Atlee	Saint- Philémon
Assets						
Current	19,756	1,744	365	1,866	79	1,502
Non-current	13,338	878	68,704	51,549	2,158	51,431
Liabilities						
Current	(7,316)	(146)	(7)	(2,681)	(79)	(2,277)
Non-current	—	(440)	—	(31,233)	—	(47,536)
Total equity	25,778	2,036	69,062	19,501	2,158	3,120
Attributable to:						
Shareholders of Capstone	13,147	(15,630)	49,084	11,093	1,456	3,258
NCI	12,631	17,666	19,978	8,408	702	(138)
	25,778	2,036	69,062	19,501	2,158	3,120

For the year ended Summarized Statements of Income	December 31, 2020					
	Claresholm	Goulais	GHG, SR & SLS	Amherst	Buffalo Atlee	Saint- Philémon
Revenue	—	3,641	4,840	8,781	—	8,403
Net income	(412)	1,015	4,656	1,687	—	577
OCI	(688)	—	—	—	—	—
Total net income and comprehensive income	(1,100)	1,015	4,656	1,687	—	577
Attributable to:						
Shareholders of Capstone	(898)	(446)	4,656	860	—	294
NCI	(202)	1,461	—	827	—	283
	(1,100)	1,015	4,656	1,687	—	577

For the year ended Summarized Statements of Income	December 31, 2019					
	Claresholm	Goulais	GHG, SR & SLS	Amherst	Buffalo Atlee	Saint- Philémon
Revenue	—	2,843	5,216	8,391	—	8,382
Net income	—	415	5,213	1,539	—	1,025
OCI	—	—	—	—	—	—
Total net income and comprehensive income	—	415	5,213	1,539	—	1,025
Attributable to:						
Shareholders of Capstone	—	(838)	5,213	785	—	523
NCI	—	1,253	—	754	—	502
	—	415	5,213	1,539	—	1,025

For the year ended	December 31, 2020					
	Claesholm	Goulais	GHG, SR & SLS	Amherst	Buffalo Atlee	Saint-Philémon
Operating	(3,468)	4,140	4,632	3,701	—	4,163
Investing	(145,454)	—	—	984	(3,230)	(36)
Financing	147,637	(3,650)	(4,840)	(4,063)	3,230	(3,441)
Net increase / (decrease) in cash and equivalents	(1,285)	490	(208)	622	—	686

For the year ended	December 31, 2019					
	Claesholm	Goulais	GHG, SR & SLS	Amherst	Buffalo Atlee	Saint-Philémon
Operating	—	3,158	5,175	5,203	—	4,236
Investing	(1,394)	—	—	(36)	(1,339)	2
Financing	21,062	(3,350)	(5,216)	(4,673)	1,339	(4,963)
Net increase / (decrease) in cash and equivalents	19,668	(192)	(41)	494	—	(725)

(C) Convertible debenture 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 these 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 entity 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 \$19,978 as at December 31, 2019 and \$17,558 as at December 31, 2020.

NOTE 20. SHARE-BASED COMPENSATION

(A) Share Appreciation Rights Plan

On April 1, 2017, a SAR plan was approved by the board. The SAR plan allows up to 15,230,458 SAR units, or 5% of the number of shares issued, to be granted. At the beginning of 2020, there were 13,060,106 units outstanding, 951,901 were granted during the year, and there were 14,012,007 units outstanding as at December 31, 2020. 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 accrued based on passage of time, until the vesting date of December 31, 2019 at which point \$402 was paid, leaving a remaining balance of nil. The LTIP expense included in wages and benefits was nil in 2020 (2019 - \$159).

NOTE 21. REVENUE BY NATURE

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

	For the year ended	
	Dec 31, 2020	Dec 31, 2019
Wind	117,811	118,086
Gas ⁽¹⁾	22,269	22,494
Solar	16,157	14,916
Hydro	13,868	14,064
Biomass ⁽²⁾	11,398	15,778
Total Revenue	181,503	185,338

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

(2) Biomass revenue includes \$799 of grant funding eligibility for Whitecourt for the year (2019 - \$3,443).

As at December 31, 2020, Capstone has trade receivable balances of \$21,669 (2019 - \$23,314).

NOTE 22. EXPENSES BY NATURE

For the year ended	Dec 31, 2020				Dec 31, 2019			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	16,657	—	—	16,657	17,903	—	—	17,903
Wages and benefits	11,313	5,054	—	16,367	10,143	4,961	—	15,104
Property expenses ⁽¹⁾	6,853	513	125	7,491	6,838	519	96	7,453
Fuel and transportation	5,341	—	—	5,341	5,723	—	—	5,723
Professional fees ⁽²⁾	1,786	339	2,026	4,151	1,448	383	1,237	3,068
Power facility administration	2,877	—	—	2,877	2,629	—	—	2,629
Insurance	2,618	92	—	2,710	2,250	112	—	2,362
Other	1,452	682	386	2,520	1,511	821	202	2,534
Total	48,897	6,680	2,537	58,114	48,445	6,796	1,535	56,776

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

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

NOTE 23. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2020	Dec 31, 2019
Changes in derivative financial instruments fair value ⁽¹⁾	160	(8,865)
Losses on debt extinguishment ⁽²⁾	(5,248)	—
Losses on disposal of capital assets	(389)	(572)
Other gains and (losses), net	(5,477)	(9,437)

(1) The derivative financial instruments changes in fair value include increases in the Whitecourt embedded derivative asset and decreases on interest rate swap contracts since December 31, 2019.

(2) Relates to Grey Highlands Clean refinancing. Refer to note 16 Long-Term Debt in the notes to the financial statements.

NOTE 24. 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 8 financial instruments, note 9 financial risk management, notes 16 long-term debt, 17 liability for asset retirement obligation and 18 shareholders' equity as at December 31, 2020 were as follows:

(A) Leases

Lease payments comprised:

	Within one year	One year to five years	Beyond five years	Total
Leases	4,810	20,223	53,979	79,012

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

- Capstone's operating wind facilities and wind development projects have entered into agreements to use, or the option to use, land in connection with the operation of existing and future wind facilities. 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 extended 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.
- Capstone's operating solar facility and solar development project have entered into agreements to use land in connection with the operation of the solar facilities with terms extending as far as 2060.
- 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 2023 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. As at December 31, 2020, Claresholm and Riverhurst have aggregate commitments of \$49,107 and \$15,680, respectively for the development and construction of the facilities.

(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 facility's PPA may be terminated after a specified period of time.

(D) Management Services Agreements

Capstone has agreements with all the partially owned wind and solar facilities and development projects, including Claresholm, Buffalo Atlee, Amherst, Saint-Philémon, Goulais, GHG, Snowy Ridge and Settlers Landing. 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. Additionally, some of the development projects include a development fee for the successful completion of the projects, which pays an agreed flat fee or 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 Energy Canada Limited covering the gas turbine at Ingredion's 15 MW facility. 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. In addition, Capstone has transitioned its Servion Projects and Suzlon Project to in-house operations and maintenance service agreements, without interruption to the facilities.

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, 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 totaling \$6,000 as at December 31, 2020.

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

NOTE 25. RELATED PARTY TRANSACTIONS

(A) Transactions with iCON Infrastructure LLP and subsidiaries ("iCON")

Fees earned from iCON Infrastructure North America Inc. ("iCON NA"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2020, Capstone earned fees of \$230 from iCON NA (2019 - \$240). As at December 31, 2020, accounts receivable included \$65 due from iCON NA.

(B) Compensation of Key Management

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

Key Management Compensation for the year ended	Dec 31, 2020	Dec 31, 2019
Salaries, directors' fees and short-term employee benefits ⁽¹⁾	1,136	1,119
Long-term incentive plan	—	207
	<u>1,136</u>	<u>1,326</u>

(1) The short-term incentive plan component of is based on amounts paid during the year.

NOTE 26. SEGMENTED INFORMATION

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

For the year ended	Dec 31, 2020			Dec 31, 2019		
	Power	Corporate	Total	Power	Corporate	Total
Revenue ⁽¹⁾	181,503	—	181,503	185,338	—	185,338
Expenses	(51,072)	(7,042)	(58,114)	(48,367)	(8,409)	(56,776)
EBITDA	125,208	(6,637)	118,571	128,453	(7,405)	121,048
Interest expense	(36,260)	—	(36,260)	(37,679)	—	(37,679)
Income tax recovery (expense)	(1,929)	2,703	774	(974)	3,091	2,117
Net income (loss)	5,214	(4,235)	979	8,854	(4,628)	4,226
Additions to capital assets, net	15,604	—	15,604	24,489	—	24,489
Additions to PUD ⁽²⁾	160,325	—	160,325	15,208	—	15,208

(1) Biomass revenue includes \$799 of grant funding eligibility for Whitecourt for the year (2019 - \$3,443).

(2) PUD additions for the year primarily include costs to develop the Claresholm solar project of \$141,700.

NOTE 27. SUBSEQUENT EVENTS

Acquisition of SWNS Wind Facilities

On January 7, 2021, Capstone acquired the assets of the Springwood, Whittington, Napier and Sumac Ridge wind facilities from wpd Europe GmbH ("wpd"). The assets are now held in SWNS Wind LP ("SWNS"), an indirect subsidiary of Capstone. The portfolio is 29MW of operating wind projects in Southern Ontario, with an average of 14 years remaining on their power purchase agreements, that will be operated and maintained by Capstone's in-house operations and maintenance team.

Capstone acquired the projects with a combination of equity and non-recourse project debt.

INVESTOR INFORMATION

Quick Facts

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

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