

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The average VWAP per RSU and PSU granted on during 2012 was 4.01 dollars (2011 – 7.87 dollars). As at December 31, 2012, the carrying value of the RSUs and PSUs, based on a market price of 4.03 dollars, was \$836 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2011 – 3.81 dollars and \$115). The RSU and PSU compensation expense of \$721 is recorded as compensation expense in the consolidated statement of income for 2012 (2011 – \$115).

(C) Employee Share Purchase Plan

All Canadian employees of Capstone are entitled to participate in the employee share purchase plan where employees can direct up to 15% of their salary to purchase Capstone shares. The Corporation will match 50% of the employee's contribution to maximum of \$3 per year, except for employees included in the LTIP program, who are ineligible for matching. Shares acquired as a matching contribution (including any dividends on those shares) vest after one year of match.

NOTE 23. EXPENSES – ANALYSIS BY NATURE

For the year ended	Dec 31, 2012				Dec 31, 2011			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	77,678	—	—	77,678	77,838	—	—	77,838
Raw materials, chemicals and supplies	57,663	—	—	57,663	16,438	—	—	16,438
Wages and benefits	41,148	6,749	20	47,917	11,911	4,126	—	16,037
Maintenance	4,370	—	—	4,370	5,053	—	—	5,053
Insurance	1,654	—	—	1,654	1,610	—	—	1,610
Manager fees	1,914	—	—	1,914	1,806	1,825	—	3,631
Professional fees for legal, audit, tax and other advisory	2,470	1,780	345	4,595	894	2,195	8,289	11,378
Leases	1,334	—	—	1,334	1,114	—	—	1,114
Property taxes	1,125	—	—	1,125	1,383	—	—	1,383
Internalization	—	—	—	—	—	19,675	—	19,675
Other	5,822	2,541	—	8,363	4,039	1,856	—	5,895
Total	195,178	11,070	365	206,613	122,086	29,677	8,289	160,052

NOTE 24. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Unrealized gain (loss) on derivative financial instruments	2,605	(21,742)
Loss on disposal of capital assets	(1,311)	—
Other net gains and (losses)	1,294	(21,742)

NOTE 25. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments as at December 31, 2012 as described below:

(A) Swap Contracts

The Corporation has various swap contracts for gas and interest, which have been further disclosed in notes 9 and 10.

(B) Leases

The following table summarizes the minimum operating lease payments:

	Within one year	One year to five years	Beyond five years	Total
Operating leases	939	3,765	8,443	13,147

Cardinal leases the site on which it is located from Ingredion Canada Incorporated ("Ingredion"), formerly Casco Inc. Under the lease, Cardinal pays nominal rent. The lease extends to 2016 and expires concurrently with the energy savings agreement between Ingredion and Cardinal.

A subsidiary of Capstone has lease agreements with the Provinces of Ontario and British Columbia with respect to certain lands, lands under water and water rights necessary for the operation of its hydro facilities. The payments with respect to these agreements vary based on actual power production. The terms of the lease agreements extend between 2023 and 2042.

Amherstburg leases the land on which its operating facilities are located. The terms of the lease agreements extend to 2031.

Erie Shores has lease and easement agreements with local landowners, municipalities and other parties with respect to certain lands for the operation of the wind farm. The payments above a minimum level with respect to these agreements vary based on actual power production. The terms of the lease agreements extend to 2025, with a 20-year renewal option.

During 2011, the Corporation entered an operating lease for premises which has a term to 2018 with an option to extend to 2023.

(C) Energy Savings Agreement

Under the terms of an energy savings agreement between Cardinal and Ingredion, Cardinal is required to sell up to 723 million pounds of steam per year to Ingredion for its plant operations. The energy savings agreement matures on December 31, 2014, but may be extended by up to two years at the option of Cardinal.

(D) Wood Waste Supply Agreement

Whitecourt has a long-term agreement with Millar Western Industries Ltd. and Millar Western Pulp Ltd. (collectively, "Millar Western") to ensure an adequate supply of wood waste. The agreement expires in 2016.

(E) Gas Purchase Contract

Cardinal has a long-term purchase agreement for natural gas that expires on May 1, 2015. The minimum purchase commitment for natural gas under the agreement is 9,289,104 MMBtu per year through to expiration in 2015, which is equivalent to 80% of the contract maximum.

(F) Operations and Management Agreement

A subsidiary of Capstone has an operations and management agreement with Regional Power OPCO Inc. ("Regional") to operate and maintain the hydro power facilities, expiring on November 15, 2016 with an automatic renewal term. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

A subsidiary of Capstone has an O&M agreement with SunPower Energy Systems Canada Corporation to operate and maintain the Amherstburg Solar Park, expiring on June 30, 2031. Capstone has the ability to terminate the agreement during the term of the contract.

A subsidiary of Capstone has an O&M agreement with Agbar to provide management support to Bristol Water, with an initial five-year term, which automatically extends indefinitely. Capstone has the ability to terminate the contract.

(G) Capital Commitments

Bristol Water had commitments for capital expenditures at December 31, 2012 of which \$33,300 were contracted for but not accrued (December 31, 2011 – \$29,396).

(H) Guarantees

From the date of Clean Power Income Fund's investment in the landfill gas business on October 31, 2002, it provided three guarantees. Two of these guarantees were in favour of a municipality, guaranteeing obligations under the relevant PPAs with the municipality. The other guarantee was in favour of a lessor of one of the sites upon which one of the landfill gas facilities projects operated, guaranteeing certain obligations under the relevant lease. The municipality and the lessor both have policies of not relieving guarantors from their guarantees for periods in which they were invested in the underlying projects. Capstone has received indemnification from Fortistar Renewable Group LLC ("Fortistar"), the purchaser of the landfill gas business, for the period commencing from the sale to Fortistar on September 15, 2006. As at December 31, 2012, no claims had been made on these guarantees.