The following table summarizes the change in the loan receivable from Värmevärden during the years ended:

For the year ended	Dec 31, 2012		Dec 31, 2011	
	SEK	**$**	SEK	$
Opening balance	**551,808**	**81,587**	—	—
Balance on origination as at March 31, 2011	**—**	**—**	551,808	84,828
Principal repayment	**(324,267)**	**(47,959)**	—	—
Unrealized foreign exchange gain (loss)		**1,140**	—	(3,241)
Ending balance	**227,541**	**34,768**	551,808	81,587

During the first quarter of 2012, Värmevärden's parent company, Sefyr Värme AB, in which Capstone holds a 33.3% indirect investment, completed an approximately $150,000 (1,000,000 SEK) offering of senior secured bonds to select institutional investors. The bonds have a five-year term, are non-amortizing and carry a coupon of 7.0%.

Proceeds from the bond issuance were distributed to the owners of Sefyr Värme AB, with Capstone receiving approximately $49,400, which was used to repay a portion of the senior credit facility. The distribution of $49,400 was comprised of a $48,100 shareholder loan repayment and a payment of $1,300 of accrued interest. Refer to note 18 (Long-term debt).

In March 2012, the shareholder loan receivable from Värmevärden was amended. The annual interest rate is 7.944%, effective January 1, 2012 (2011 – 7.965%).

Expected repayments of the Chapais loan receivable for the next five years and thereafter were as follows:

Year	Amount
2013	1,096
2014	1,220
2015	1,359
2016	—
2017	—
Thereafter	562
Total	4,237

NOTE 9. FINANCIAL INSTRUMENTS

(A) Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, short-term deposits, accounts receivable, loans receivable, accounts payable and other liabilities, loans payable, finance lease obligations, long-term debt, interest rate swap contracts and foreign currency contracts. The Corporation also has embedded derivatives on one of its commodity contracts.

Financial instruments designated as held-for-trading

The Corporation invests its cash and cash equivalents and restricted cash balances in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less. Short-term deposits have original maturities of greater than 90 days.

As at December 31, 2012, the carrying values of cash and cash equivalents, restricted cash and short-term deposits are considered to be approximately at their fair value due to their short-term nature, which is consistent with the prior year.

Derivative financial instruments and hedging instruments

Gas swap

In 2011, the Corporation held a gas swap contract that effectively fixed the price for a portion of the revenue derived from the sales of excess gas. The contract mitigated exposure to natural gas price fluctuations for sales of excess natural gas in 2011. The Corporation no longer holds any gas swap contracts due to the current market conditions for gas.

Interest rate swap

The Corporation has several interest rate swap contracts to effectively fix the interest cost on its long-term debt with variable rates, summarized in the following list:

- CPC-Cardinal facility swap had a notional amount of $85,000 which expired in June 2012.
- Erie Shores project debt had a residual interest rate swap contract on a notional amount of $20,000 originally entered into to mitigate the refinancing risk associated with the Erie Shores Tranche C project debt which was refinanced on April 1, 2011.

  The Corporation pays a fixed rate of 5.63% for a period of five years from December 1, 2011 to December 1, 2016. In return, the Corporation receives a floating rate equal to the then current three-month BA rate.

- Amherstburg project debt swap has a notional amount of $90,560.
  The Corporation pays a fixed rate of 4.1925% in return for a floating rate equal to 1.2943%.
- Bristol Water has a swap with a notional amount of £10,000 for a bank loan drawn in October 2008 by Bristol Water.
  The swap exchanges LIBOR rates on a six monthly basis for a fixed rate of 5.025% and expires December 7, 2017. The swap meets the requirement to be accounted for as a cash flow hedge as it was assessed to be highly effective as at December 31, 2012.

Embedded derivative

The Corporation has determined that its gas purchase contract contains embedded derivative features, which include mitigation options and electricity indexing features requiring separation and measurement at fair value.

Foreign currency contracts

The Corporation has foreign currency contracts to mitigate the currency risk for interest payments on the shareholder loan with Värmevärden in SEK and dividends from Bristol Water in pounds sterling. The options to sell 65,800 SEK (December 31, 2011 - 65,800 SEK) to Canadian dollars expiring in January 2016 are at a fixed exchange rate of 6.5165 SEK. The options to sell £14,900 (December 31, 2011 - £14,900) to Canadian dollars expiring May 2015 are at a fixed exchange rate of £1.623.

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

Gas swap	• The gas swap contracts' fair value fluctuates with changes in market interest rates and prices for natural gas. • A discounted cash flow analysis based on the forward gas price and the interest rate curve was used to determine their fair value.
Interest rate swap	• The interest rate swap contracts' fair value fluctuates with changes in market interest rates. • A discounted cash flow analysis based on a forward interest rate curve was used to determine their fair value.
Interest rate swap (Cash flow hedges)	• The market price of comparable instruments at the balance sheet date is used to determine the fair value of cash flow hedges at Bristol Water.
Embedded derivative	• The determination of the fair value of the Corporation's embedded derivatives requires the use of option pricing models involving significant judgment based on management's estimates and assumptions.
Foreign currency contracts	• The foreign currency contracts fair value fluctuates with changes in the relative currencies to the Canadian dollar. • A Black-Scholes model, based on the current spot price, discount rate, volatility in the underlying currency and time to maturity, is used to determine fair value.

Loans and receivables

The Corporation's accounts receivable, which consist of trade and accrued interest receivable, are recorded at fair value.

The Corporation's loans receivable are measured at amortized cost using the effective interest 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. See note 8 for further details.

Other liabilities

The Corporation's accounts payable and accrued liabilities and loans payable are short-term liabilities with carrying values that approximate their fair values as at December 31, 2012.

The Corporation's long-term debt and finance lease obligations are recorded at amortized cost using the effective interest rate method. The carrying amount of indexed linked borrowings increases annually in line with the retail price index ("RPI") with accretion being charged to income statements as interest expense.

The fair value of the Corporation's long-term debt is determined as follows:

- Floating rate debt and loans payable approximate their 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.
- Convertible debentures is determined by multiplying the current market debenture price as per the Toronto Stock Exchange by the number of convertible shares outstanding as at year end. See note 18 for further details.
- Irredeemable preferred shares for Bristol Water plc (shown as debt within these financial statements) are listed on the London Stock Exchange. Their fair value is determined by the quoted market price.

The carrying value of the Corporation's finance leases approximates fair value.

The following table illustrates the classification of the Corporation's financial instruments that have been recorded at fair value as at December 31, 2012, within the fair value hierarchy:

	Level 1	Level 2	Level 3	**Dec 31, 2012**	Dec 31, 2011
Cash and cash equivalents	49,599	—	—	**49,599**	57,587
Restricted cash	19,229	—	—	**19,229**	14,947
Short-term deposits	6,471	—	—	**6,471**	82,202
Derivative contract assets:					
Foreign currency contracts	—	849	—	**849**	1,820
Interest rate swap contracts	—	—	—	**—**	—
Embedded derivative asset	—	—	1,172	**1,172**	1,324
Less: Current portion	—	(174)	—	**(174)**	(261)
	—	675	1,172	**1,847**	2,883
Derivative contract liabilities:					
Interest rate swap contracts	—	15,337	—	**15,337**	15,237
Interest rate swap contracts for hedging	—	3,156	—	**3,156**	2,916
Embedded derivative liability	—	—	12,158	**12,158**	15,990
Less: Current portion	—	(3,106)	—	**(3,106)**	(3,088)
	—	15,387	12,158	**27,545**	31,055

The fair value for the interest rate swap contracts, classified as Level 2, was derived using a discounted cash flow model that considers various observable inputs, including time to maturity, forward interest rates and credit spreads or was with reference to the market price of comparable instruments.

Due to the lack of observable market quotes on the Corporation's embedded derivatives, their fair values, classified as Level 3, were derived using valuation models that rely on a combination of observable and unobservable inputs, including interest rates, forward gas prices and volatility, foreign exchange curves, credit spreads, estimates on gas volumes and sales, fixed and variable gas transportation costs and a forecasted Direct Customer Rate ("DCR") curve based on historical averages. Changes in one or a combination of these estimates may have a significant impact on the fair value of the embedded derivatives given the volume of gas and 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.

(B) Income and Expenses From Financial Instruments

	Dec 31, 2012	Dec 31, 2011
Financial instruments designated as held-for-trading:		
Interest income on cash and cash equivalents, restricted cash and short-term deposits [1]	**962**	872
Financial instruments classified as held-for-trading:		
Unrealized loss on foreign currency contracts	**(975)**	(644)
Unrealized loss on gas swap contracts	**—**	(1,918)
Unrealized loss on interest rate swap contracts	**(100)**	(8,128)
	(1,075)	(10,690)
Unrealized loss on embedded derivative asset	**(152)**	(3,963)
Unrealized gain (loss) on embedded derivative liability	**3,832**	(7,089)
	3,680	(11,052)
Loans and receivables[1]:		
Interest income from loans receivable [2]	**3,924**	5,571
Other liabilities:		
Interest expense on finance lease obligations	**226**	(108)
Interest expense on pension obligation (net expected return on assets)	**(538)**	(75)
Interest expense on long-term debt with maturities under 12 months	**(4,978)**	(9,826)
Interest expense on long-term debt[3]	**(44,417)**	(21,659)
	(49,707)	(31,668)

(1) Foreign exchange gains and losses on loans receivable are also recognized in the statement of income as disclosed in note 8.
(2) Interest income for 2012 of $4,886 (2011 – $6,443) includes interest income from loans receivable and cash balances.
(3) Interest expense on the long-term debt for 2012 includes amortization of deferred financing fees of$1,965 (2011 – $3,485).