NOTE 18. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Dec 31, 2012		Dec 31, 2011	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Power	**305,497**	**297,792**	314,196	308,513
Utilities – water	**519,660**	**473,537**	504,479	480,339
Corporate	**44,416**	**40,631**	155,124	152,613
	869,573	**811,960**	973,799	941,465
Less: deferred financing costs	**—**	**(7,328)**	—	(6,421)
Long-term debt	**869,573**	**804,632**	973,799	935,044
Less: current portion	**(21,258)**	**(14,977)**	(235,209)	(230,899)
	848,315	**789,655**	738,590	704,145

(B) Power

As at	Dec 31, 2012		Dec 31, 2011	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
CPC-Cardinal credit facility	**12,050**	**12,050**	85,000	85,000
Erie Shores project debt	**106,538**	**97,703**	108,616	102,933
Amherstburg Solar Park project debt	**90,560**	**90,560**	94,267	94,267
Hydro facilities senior secured and subordinated bonds	**96,349**	**97,479**	—	—
Wawatay facility's levelization liability	**—**	**—**	26,313	26,313
	305,497	**297,792**	314,196	308,513
Less: deferred financing costs	**—**	**(5,080)**	—	(3,248)
Long-term debt	**305,497**	**292,712**	314,196	305,265
Less: current portion	**(21,258)**	**(14,977)**	(99,136)	(94,826)
	284,239	**277,735**	215,060	210,439

(i) CPC-Cardinal credit facility

The CPC-Cardinal credit facility is composed of a term facility and revolving facility as follows:

	Interest Rate	Maturity	**Dec 31, 2012**	Dec 31, 2011
Total available credit				
Term facility			**12,050**	125,625
Revolving facility			**15,000**	40,625
			27,050	166,250
Amounts drawn – Term facility				
Cardinal – Power portion	4.53%	Jun 30, 2014	**(12,050)**	(17,000)
CPC – Power portion			**—**	(68,000)
CPC – Corporate portion			**—**	(34,000)
Letters of credit for the benefit of Erie Shores			**(2,533)**	(2,533)
Letter of credit for the benefit of Amherstburg			**(5,330)**	(5,330)
Letter of credit for the benefit of Hydros			**(250)**	—
Letter of credit for the benefit of Capstone Power Corp			**(397)**	—
Guarantee for Erie Shores project debt			**—**	(5,000)
Remaining available credit			**6,490**	34,387

As at December 31, 2012, Capstone had six letters of credit authorized under the revolving facility (December 31, 2011 – four under the revolving facility).

Capstone's $5,000 guarantee of Erie Shores project debt is authorized against the new CPC-Cardinal revolving facility and does not reduce the remaining available credit. The terms of the old CPC-Cardinal credit facility required the available credit to be reduced for this guarantee.

During 2012, Capstone repaid $106,700 of the CPC-Cardinal credit facility. Capstone repaid $39,000 with proceeds from the partial sale of Bristol Water (refer to note 3 Acquisition and Disposal) and $67,700 with proceeds from the financing of the hydro power facility. On September 17, 2012, Capstone refinanced the CPC-Cardinal credit facility in the aggregate amount of up to $27,300, comprised of a $12,300 term loan used to repay the outstanding balance and a $15,000 revolving facility.

Advances under the credit facility are made in the form of a series of bankers' acceptances ("BAs") and prime rate loans. Interest paid on BAs is based on the then current BA rate plus an applicable margin ("stamping fee"). The weighted average contractual rate of interest at December 31, 2012 is included in the preceding table and the maturity date of the facility was June 30, 2014. The collateral for the facility is provided by a first ranking security interest covering the assets of CPC, Cardinal and certain direct subsidiaries, collectively the "restricted group". The restricted group is subject to certain financial and non-financial covenants including limits on the interest coverage ratio and the ratio of consolidated total debt to consolidated EBITDA.

Collateral for the CPC-Cardinal credit facility is provided by a first ranking priority security interest covering the assets of CPC, Cardinal and certain direct subsidiaries, collectively the "restricted group". As at December 31, 2012, the carrying value of the assets of the restricted group exceeded total amounts drawn on the facility.

The CPC-Cardinal credit facility had various interest rate swap contracts to convert the floating rate obligations to a fixed rate obligation, which all expired during 2012 (see note 10(a)).

(ii) Erie Shores Wind Farm

The Corporation has a non-recourse amortizing project debt for Erie Shores through three tranches:

	Interest Rate	Maturity	**Dec 31, 2012**	Dec 31, 2011
Tranche A	5.96%	Apr 1, 2026	**57,041**	59,721
Tranche B	5.28%	Apr 1, 2016	**3,223**	4,040
Tranche C	6.15%	Apr 1, 2026	**37,439**	39,172
			97,703	102,933

On April 1, 2011, Capstone completed the refinancing of Tranche C of Erie Shores' non-recourse, project financing loan. Under the refinancing, the Erie Shores' Tranche C loan was replaced with a fully amortizing term loan in the amount of $40,000, with a fixed rate of interest at 6.145% which matures on April 1, 2026. Transaction costs of $889 were deferred.

Under the agreement, six months of principal and interest payments must be held in a debt service reserve account. As a result, $5,662 was included in restricted cash on the consolidated statement of financial position (December 31, 2011 – $5,648).

The Erie Shores project debt was secured only by the Erie Shores assets, with no recourse to the Corporation's other assets. As at December 31, 2012, the carrying value of the assets of Erie Shores exceeded the total amount of project debt outstanding.

As at December 31, 2012, the Erie Shores project debt had an interest rate swap contract to convert the Erie Shores obligation to a fixed rate (see note 10(a)).

(iii) Amherstburg Solar Park project debt

The Amherstburg Solar Park has non-recourse project debt composed as follows:

	Interest Rate	Maturity	**Dec 31, 2012**	Dec 31, 2011
Project debt	7.32%	Jun 30, 2016	**90,560**	94,267

In July 2011, the outstanding balance of the construction facility was converted to a term facility, which requires regular principal and interest payments, over 17 years, with a five-year maturity.

The Amherstburg Solar Park project debt was secured only by the assets of the Amherstburg Solar Park, with no recourse to the Corporation's other assets. As at December 31, 2012, the carrying value of the assets of the Amherstburg Solar Park exceeded the total amount of project debt outstanding.

As at December 31, 2012, the Amherstburg Solar Park project debt had an interest rate swap contract to mitigate interest rate risk (see note 10(a)).

(iv) Hydro facilities senior secured and subordinated secured bonds

The Corporation has non-recourse amortizing bonds for the hydro facilities summarized in the following table:

As at	Interest Rate	Maturity	**Dec 31, 2012**	Dec 31, 2011
Senior secured bonds	4.56%	Jun 30, 2040	**77,237**	—
Subordinated secured bonds	7.00%	Jun 30, 2041	**20,242**	—
			97,479	—

On June 6, 2012, MPT Hydro LP completed a $100,621 debt offering to recapitalize the Dryden, Hluey Lakes, Sechelt and Wawatay facilities (the "hydro facilities"). The debt offering comprising $80,379 of senior secured bonds and $20,242 of subordinated secured bonds. The senior secured and subordinated secured bonds are fully amortizing over their respective terms.

The bonds are secured by the hydro facilities alone and are non-recourse to the Corporation's other businesses. As at December 31, 2012, the carrying value of the assets of the hydro facilities exceeded the total amount of bonds outstanding.

Proceeds of the bond offerings were first used to repay the $27,239 balance of the levelization debt at the Wawatay hydro facility, along with $1,785 of transaction costs, which were capitalized to the debt. In addition, Capstone cash funded $3,846 to the debt service and maintenance reserve accounts in accordance with the bond indenture which is presented as restricted cash. The remaining $67,700 of net proceeds was used to repay a portion of the CPC-Cardinal credit facility.

(v) Levelization amounts

The carrying value of the levelization amounts was as follows:

As at	Interest Rate	Maturity	**Dec 31, 2012**	Dec 31, 2011
Principal	6.87%	Settled	**—**	13,902
Accrued Interest			**—**	12,411
			—	26,313

The levelization liability related to payments received from the OEFC in excess of the revenue recorded using the base rates set out under the PPA for the Wawatay hydro power facility. This liability was settled on June 6, 2012, with the proceeds from the hydro facilities bond offering.

The interest on the levelization liability was accrued at the prescribed variable rate of 6.87% per annum (December 31, 2011 – 6.87%).

(C) Utilities – water

	Dec 31, 2012		Dec 31, 2011	
As at	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Bank loans	**31,540**	**31,430**	55,625	54,213
Term loans	**457,563**	**413,746**	420,242	398,445
Debentures	**2,346**	**2,072**	2,125	2,008
Irredeemable cumulative preferred shares	**28,211**	**26,289**	26,487	25,673
	519,660	**473,537**	504,479	480,339
Less: deferred financing costs	**—**	**—**	—	—
Long-term debt	**519,660**	**473,537**	504,479	480,339
Less: current portion	**—**	**—**	(23,698)	(23,698)
	519,660	**473,537**	480,781	456,641

(i) Bank loans

As at	Interest Rate	Maturity	**Dec 31, 2012 [£]**	**Dec 31, 2012 [$]**	Dec 31, 2011 [$]
Secured, variable interest at one month Libor plus a margin (principal £10,000(1))	1.18%	Dec 17, 2017	**9,714**	**15,715**	15,257
Secured, variable interest at six month Libor plus a margin (principal £10,000(1 and 2))	5.73%	Dec 17, 2017	**9,714**	**15,715**	15,257
Secured, variable interest at one month Libor plus a margin (principal £30,000)	1.04%	May 31, 2013	**—**	**—**	—
Secured, variable interest at one month Libor plus a margin (principal £20,000)	1.79%	Aug 17, 2015	**—**	**—**	—
Secured, variable interest at one month Libor plus a margin (principal £50,000)	2.04%	Aug 17, 2017	**—**	**—**	—
Secured, variable interest at one month Libor plus a margin (principal £15,000)	1.52%	Settled	**—**	**—**	23,699
				31,430	54,213

(1) The principal due on maturity is different from the balance as at December 31, 2012 in pounds sterling due to the fair value adjustment required on acquisition and deferred financing costs.

(2) The variable rate bank loan is fixed by an interest rate swap exchanging six month LIBOR for a fixed rate of 5.025%. The fixing dates of the swap match those of the loan (see note 10(a)). The loan has a bullet repayment on maturity.

The bank loans are fully repayable on maturity and incur non-utilization fees on the undrawn portion of the total available credit.

(ii) Term loans

As at	Interest Rate	Maturity	**Dec 31, 2012 [£]**	**Dec 31, 2012 [$]**	Dec 31, 2011 [$]
Secured, principal index-linked to RPI, fixed interest at 3.635%(2) on the indexed principal (principal £118,664(1))	6.79%	Sep 30, 2032	**146,781**	**237,462**	227,752
Secured, fixed interest at 6.01%(2) (principal £57,500(1))	6.01%	Sep 30, 2033	**63,265**	**102,350**	100,388
Secured, principal index-linked to RPI, fixed interest at 2.701% on the indexed principal (principal £42,588(1))	5.77%	Mar 24, 2041	**45,700**	**73,934**	70,305
				413,746	398,445

(1) The principal due on maturity is different from the balance as at December 31, 2012 in pounds sterling due to the fair value adjustment made to the long-term debt on acquisition and deferred financing costs.
(2) Coupons as specified in loan documentation.

The interest rate on the £118,664 indexed linked loan is adjusted in March and September, by reference to the Retail Price Index ("RPI"), with an eight month lag.

The interest rate on the £42,588 indexed linked loan is adjusted in March and September, by reference to the RPI, with a two month lag.

(iii) Debentures

As at	Interest Rate	Maturity	**Dec 31, 2012 [£]**	**Dec 31, 2012 [$]**	Dec 31, 2011 [$]
Consolidated (principal £1,405(1))	4.00%	Irredeemable	**1,116**	**1,806**	1,748
Perpetual (principal £37(1))	4.25%	Irredeemable	**37**	**59**	58
Perpetual (principal £55(1))	4.00%	Irredeemable	**55**	**89**	87
Perpetual (principal £73(1))	3.50%	irredeemable	**73**	**118**	115
				2,072	2,008

(1) The principal due on maturity is different from the balance as at December 31, 2012 in pounds sterling as due to the fair value adjustment made to the long-term debt on acquisition.

The rate of interest is fixed and payable every six months.

(iv) Irredeemable cumulative preferred shares

As at	Interest Rate	Maturity	**Dec 31, 2012 [£]**	**Dec 31, 2012 [$]**	Dec 31, 2011 [$]
Preferred shares, cumulative (principal £12,500(1))	8.75%	irredeemable	**16,250**	**26,289**	25,673

(1) The principal due on maturity is different from the balance as at December 31, 2012 in pounds sterling due to the fair value adjustment made to the long-term debt on acquisition.

Bristol Water is authorized to issue 14,000 irredeemable cumulative preferred shares at a value of £1 each, 12,500 have been issued and are fully paid for as at December 31, 2012.

The preferred shares, which do not carry any voting rights, were issued in 1992 at £1 per share. The preferred shareholders of Bristol Water are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half-yearly on 1 April and 1 October. On winding up, the preferred shareholders rank ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preferred shares are in arrears for six months or more, holders of the preferred shares become entitled to vote at general meetings of members. In accordance with IAS 39 the shares are classified as long-term debt.

(v) Security for borrowings

The majority of Bristol Water's financial liabilities are secured. In respect of Bristol Water plc:

- By way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act 1991), its present and future goodwill, all rights and claims in relation to charged bank accounts, all book debts all insurances, all rights, title and interest to all investments and all plant and machinery, and
- A floating charge over the whole of its undertaking.

Prior to enforcement of the security by the lender, Bristol Water plc is entitled to exercise all its rights, and perform its obligations in relation to the charged assets in accordance with the provisions set out in the Security Trust and Intercreditor Deed.

In respect of Bristol Water Core Holdings Ltd (the immediate parent of Bristol Water plc), as security for the obligations of Bristol Water plc:

- A fixed charge over its shares in Bristol Water plc together with a floating charge over the whole of its undertaking.

(D) Corporate

	Dec 31, 2012		Dec 31, 2011	
As at	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Senior debt facility	**—**	**—**	78,375	78,375
CPC-Cardinal credit facility	**—**	**—**	34,000	34,000
Convertible debentures	**44,416**	**40,631**	42,749	40,238
	44,416	**40,631**	155,124	152,613
Less: deferred financing costs	**—**	**(2,248)**	—	(3,173)
Long-term debt	**44,416**	**38,383**	155,124	149,440
Less: current portion	**—**	**—**	(112,375)	(112,375)
	44,416	**38,383**	42,749	37,065

(i) Senior debt facility

The senior debt facility is composed as follows:

As at	Interest Rate	Maturity	**Dec 31, 2012**	Dec 31, 2011
Senior debt facility	6.73%	Settled	**—**	78,375

The Corporation settled the remaining balance during 2012, with $49,400 from the proceeds of the Värmevärden bond issue (refer to note 8 Loan Receivable) and $28,975 with proceeds from the partial sale of Bristol Water.

(ii) Convertible debentures

The carrying values of the liability and the equity components of the debentures were as follows:

As at	**Dec 31, 2012**	Dec 31, 2011
Liability component	**40,238**	49,067
Conversion to shares, net of costs (1)	**—**	(9,547)
Amortization and accretion	**393**	718
	40,631	40,238
Deferred financing costs	**(2,248)**	(2,710)
	38,383	37,528
Convertible debentures – conversion option	**—**	—
	38,383	37,528
Equity component (2)	**9,284**	11,554
Conversion to shares (1), net of costs	**—**	(2,270)
	9,284	9,284
	47,667	46,812

(1) No conversions occurred during the year ended December 31, 2012 (note 20) (December 31, 2011 – $11,819). Conversion transfer the carrying amount in debt and equity to share capital, net of transaction costs incurred in connection with the issuance of the convertible debentures.
(2) On January 1, 2011, the amount was classified as equity and no longer re-measured to fair value.

The Corporation has unsecured subordinated convertible debentures ("2016 Debentures") that are due on December 31, 2016. The Corporation originally issued $57,500 gross incurring transaction costs of $2,880. The 2016 Debentures bear an interest rate of 6.50% per annum payable semi-annually in arrears on June 30 and December 31 of each year. The 2016 Debentures are convertible into shares of the Corporation at the option of the holder at a conversion price of 7.00 dollars per share. The face value of the debentures as of December 30, 2012 was $42,749 (December 31, 2011 – $42,749).

(E) Long-term Debt Covenants

For the year ended and as at December 31, 2012, the Corporation and its subsidiaries were in compliance with all financial and non-financial debt covenants.

(F) 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	14,977	137,338	145,477	297,792
Utilities – water	—	32,356	376,796	409,152
Corporate	—	42,749	—	42,749
	14,977	212,443	522,273	749,693

NOTE 19. LIABILITY FOR ASSET RETIREMENT

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, Erie Shores and the hydro power facilities.

The following table provides the underlying assumptions and reconciles the Corporation's total asset retirement obligation activity for the years ended December 31:

	Dec 31, 2012	Dec 31, 2011
Assumptions:		
Expected settlement date	**2014 – 2062**	2014 – 2042
Estimated settlement amount	**Nil – $2,965**	Nil – $2,965
Inflation rate	**2.0%**	2.0% – 2.1%
Credit-adjusted risk-free rate	**8.0% – 12.5%**	8.0% – 9.5%
Balance, beginning of year	**2,412**	3,167
Revision of estimates	**(533)**	(962)
Accretion expense	**217**	207
Balance, end of year	**2,096**	2,412

NOTE 20. SHAREHOLDERS' EQUITY

The share capital of the Corporation was as follows:

As at	**Dec 31, 2012**	Dec 31, 2011
Common shares	**632,474**	626,861
Class B exchangeable units	**26,710**	26,710
Preferred shares	**72,020**	72,020
	731,204	725,591

(A) Common Shares

Capstone is authorized to issue an unlimited number of common shares.

Continuity for the year ended	**Dec 31, 2012**		Dec 31, 2011	
($000s and 000s shares)	**Shares**	**Carrying Value**	Shares	Carrying Value
Opening balance	**70,957**	**626,861**	56,352	536,278
Common shares issued (1) to (3)	**—**	**(89)**	12,856	77,526
Dividend reinvestment plan (4)	**1,488**	**5,702**	253	1,238
Conversion of convertible debentures, net of cost (5)	**—**	**—**	1,496	11,819
Ending balance	**72,445**	**632,474**	70,957	626,861

(1) On December 22, 2010, the Corporation closed a private placement financing (the "Offering") of 9,079 units at a price of 7.60 dollars per unit for gross proceeds of approximately $69,000 before issue costs of $3,751. The net proceeds of the Offering were used by the Corporation for acquisitions and for general purposes. During 2011, $102 of the private placement transaction costs were included in share capital.
(2) On April 15, 2011, the Corporation issued 856 common shares subscribed to by MGL as part of the management internalization at 8.18 dollars per share for gross proceeds of approximately $7,000.
(3) On November 10, 2011, the Corporation issued 12,000 common shares for gross proceeds of $75,000 before issues costs of $4,526. Additional transaction costs of $89 were included in share capital in 2012 in relation to this common share offering.
(4) Shares issued by the Corporation under the Dividend Re-Investment Plan (DRIP).
(5) No convertible debentures were converted to shares of the Corporation during 2012 (note 18(d)(ii)) (December 31, 2011 – $11,819). Amounts transferred from debt and equity are net of original issuance transaction costs.