

## (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
	<u>14,977</u>	<u>212,443</u>	<u>522,273</u>	<u>749,693</u>

## 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
<b>Assumptions:</b>		
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	<u>2,096</u>	<u>2,412</u>

## 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
	<u>731,204</u>	<u>725,591</u>

## (A) Common Shares

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

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

**(B) Class B Exchangeable Units**

MPT LTC Holding LP had 3,249 Class B exchangeable units outstanding as at December 31, 2012 and 2011. Each unit is exchangeable into one share of the Corporation. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as shares of the Corporation.

The holders of the Class B exchangeable units are not permitted to acquire any additional shares of the Corporation (other than pursuant to the exchange of the Class B exchangeable units or pursuant to a distribution reinvestment plan) without the consent of the Corporation until October 18, 2020. Each Class B exchangeable unit will convert into a share of the Corporation on October 18, 2020 unless converted earlier at the option of the Class B exchangeable unitholders. The Class B exchangeable unitholders are not permitted to sell more than 5% of their aggregate outstanding shares in any four-month period and are not eligible to vote with any shares they receive on exchange of their Class B exchangeable units until they together hold 1% or less of the aggregate outstanding shares.

**(C) Preferred Shares**

Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares. As at December 31, 2012 and 2011, 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 5% cumulative discretionary dividend which resets on each 5-year anniversary, the next anniversary date is July 31, 2016. The shares are non-voting and redeemable at the Corporation's discretion. Subsequent to the initial 5-year fixed rate period, the issuer will determine the annual dividend for the next 5-year period based on the 5-year Government of Canada Bond Yield plus 2.71%. After September 30, 2016, the series A preferred shares are convertible on a one for one basis to series B cumulative, floating rate first preferred shares at the holders option. The series B preferred shares are redeemable at the Corporation's discretion after June 20, 2021 and every 5 years thereafter at 25 dollars per share plus accrued and unpaid dividends.

**(D) Dividends**

Dividends to common shareholders and distributions to Class B exchangeable unitholders were paid on a monthly basis up to June 1, 2012, when Capstone's Board of Directors established a new dividend policy to pay dividends on a quarterly basis. The series A preferred shares are also paid on a quarterly basis. The dividends declared were as follows:

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Common shares	32,302	39,882
Class B exchangeable units	1,462	2,144
	<b>33,764</b>	42,026
Preferred shares (includes \$200 of deferred income taxes)	<b>4,575</b>	1,264

Capstone has included \$5,677 of accrued common dividends and \$625 of accrued preferred dividends based on the declaration on November 13, 2012, which were paid to shareholders on January 31, 2013 (December 31, 2011 – \$4,501 was accrued for common shares).

Capstone paid \$0.450 per common share and \$1.250 per preferred share during the year ended December 31, 2012 (December 31, 2011 – \$0.660 per common share and \$0.421 per preferred share).

**(E) Capital Management**

The Corporation defines its capital as its long-term debt and shareholders' equity as follows:

As at	Dec 31, 2012	Dec 31, 2011
Long-term debt	811,960	941,465
Shareholders' equity <sup>(1)</sup>	418,848	413,520
<b>Total capitalization</b>	<b>1,230,808</b>	1,354,985

(1) Capstone does not include the non-controlling interest of \$91,610 in shareholders equity (December 31, 2011 – \$34,450).

The Corporation manages its capital to achieve the following objectives:

- (i) maintain a capital structure that provides financial flexibility to the Corporation to ensure access to either debt or equity capital on commercially reasonable terms, without exceeding its debt capacity;
- (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and distribution payments; and
- (iii) deploy capital to provide an appropriate investment return to its shareholders.

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 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 18.

## NOTE 21. EARNINGS PER SHARE (“EPS”)

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Net income (loss)	43,724	(3,263)
Non-controlling interest	(16,746)	(2,449)
Dividends declared on preferred shares	(4,575)	(1,264)
Net income (loss) available to common shareholders	22,403	(6,976)
Weighted average number of common shares (including Class B exchangeable units) outstanding	75,116	64,465
<b>Basic and Diluted EPS</b>	<b>0.298</b>	<b>(0.108)</b>

The convertible debentures are anti-dilutive for the years ended December 31, 2012 and 2011.

## NOTE 22. SHARE-BASED COMPENSATION

### (A) Deferred Share Units

The Deferred Share Units (“DSUs”) are granted to eligible directors on the first day of each quarter at the five-day volume weighted average price (“VWAP”) prior to the grant date. Grants vest immediately upon the last trading day of each quarter. In addition, directors may elect to receive their quarterly director fees in the form of DSUs, which vest at the time of granting. Dividend equivalents are granted as of each payment date for dividends on shares in accordance with Capstone's dividend policy on common shares. DSUs do not have an exercise price and can only be settled in cash at the time a director ceases to be a board member.

For the year ended (\$000s, except unit amounts)	Dec 31, 2012		Dec 31, 2011	
	Number of Units	Fair Value	Number of Units	Fair Value
Outstanding at January 1	8,407	32	—	—
Fixed quarterly grants during the period	20,102	75	7,896	60
Dividend equivalents	1,689	7	511	3
	<b>30,198</b>	<b>114</b>	8,407	63
Unrealized gain (loss) on revaluation	—	8	—	(31)
<b>Outstanding at December 31</b>	<b>30,198</b>	<b>122</b>	8,407	32

The average VWAP per DSU granted during 2012 was 4.10 dollars (2011 – 7.60 dollars). As at December 31 2012, the carrying value of the DSUs, based on a market price of 4.03 dollars, was \$122 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2011 – 3.81 dollars and \$32). The resulting DSU expense for 2012 was \$90 and is recorded as compensation expense in the consolidated statement of income (2011 – \$32).

### (B) Long-term Incentive Plan

During 2012, Capstone granted to the senior management of the Corporation 253,959 Restricted Stock Units (“RSUs”) and 141,431 Performance Share Units (“PSUs”). The five-day VWAP per RSU and PSU granted January 3, 2012 was 3.78 dollars and 4.23 dollars per RSU granted March 23, 2012 and all RSUs and PSUs granted vest on December 31, 2014. In 2011, 67,058 RSUs and 67,058 PSUs were granted and they vest on December 31, 2013.

Dividend equivalents are granted as of each record date for dividends on shares in accordance with Capstone's dividend policy on common shares. RSUs and PSUs do not have an exercise price and can be settled in shares or cash at the Board's discretion. Additionally, the valuation also takes into consideration that the amount of the PSUs is subject to Capstone's total return over the period relative to a peer group.

(\$000s, except unit amounts)	Dec 31, 2012		Dec 31, 2011	
	Notional number of Units	Fair Value	Notional number of Units	Fair Value
Outstanding at January 1	141,892	541	—	—
Grants during the period	395,390	1,546	134,116	1,062
Dividend equivalents	50,878	205	7,776	45
	<b>588,160</b>	<b>2,292</b>	141,892	1,107
Unrealized loss on revaluation	—	(81)	—	(566)
<b>Outstanding at December 31</b>	<b>588,160</b>	<b>2,211</b>	141,892	541