

**NOTE 15. INCOME TAXES**
**(A) Deferred Income Tax Continuity**

The changes in the deferred income tax assets and liabilities are as follows:

As at	Dec 31, 2011	Recorded in Earnings	Recognized in OCI (excluding foreign exchange)	Foreign Exchange Recorded in OCI <sup>(1)</sup>	Other	Dec 31, 2012
Non-capital loss carry-forwards	1,523	1,908	—	—	—	3,431
Levelization amounts	4,760	(1,644)	—	—	—	3,116
Financial instruments	8,460	(928)	13	17	—	7,562
Asset retirement obligations	601	(73)	—	—	—	528
Capital and Intangible assets	1,162	(1,162)	—	—	—	—
Loan premium and deferred financing costs	15,701	(2,731)	—	316	—	13,286
Other	690	(549)	—	50	605 <sup>(2)</sup>	796
<b>Deferred income tax assets</b>	<b>32,897</b>	<b>(5,179)</b>	<b>13</b>	<b>383</b>	<b>605</b>	<b>28,719</b>
Capital assets	125,888	8,723	—	2,611	1,802 <sup>(3)</sup>	139,024
Intangible assets	36,113	(3,746)	—	—	—	32,367
Equity investment in Chapais	301	(301)	—	—	—	—
Loan premium and deferred financing costs	93	254	—	—	—	347
Pension surplus	15,129	189	(6,828)	222	—	8,712
Convertible debentures	677	(123)	—	—	—	554
Financial instruments	—	172	—	—	—	172
<b>Deferred income tax liabilities</b>	<b>178,201</b>	<b>5,168</b>	<b>(6,828)</b>	<b>2,833</b>	<b>1,802</b>	<b>181,176</b>
<b>Net, deferred income tax liability</b>	<b>145,304</b>	<b>10,347</b>	<b>(6,841)</b>	<b>2,450</b>	<b>1,197</b>	<b>152,457</b>

(1) Cumulative differences on translation of foreign operations.

(2) Recorded \$805 to current income taxes payable, partially offset by \$200 recorded in equity, with respect to the taxes on the dividends of the preferred shares. See note 20 (d).

(3) Recorded as purchase equation adjustment through working capital and goodwill. See note 3.

**(B) Timing of Deferred Income Tax Recovery**

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

As at	Dec 31, 2012	Dec 31, 2011
Within 12 months	17,983	12,596
After more than 12 months	(170,440)	(157,900)
<b>Net, deferred tax liability</b>	<b>(152,457)</b>	<b>(145,304)</b>

The aggregate amount of temporary differences associated with investments in subsidiaries and equity-accounted investees, for which deferred tax liabilities have not been recognized, as at December 31, 2012 was \$12,612 (December 31, 2011 – nil). These liabilities have not been recorded as the reversal of such differences are not expected to create a tax liability.

**(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, 2012	Dec 31, 2011
Canadian – capital losses	No expiry	—	84,610	84,610	70,557
Canadian – non-capital losses	2025 – 2032	13,572	59,908	73,480	38,052
US – non-capital losses	2023 – 2027	—	14,385	14,385	17,942
UK – capital losses (£2,864)	No expiry	—	4,633	4,633	4,681
UK – advanced corporation tax (£3,922)	No expiry	—	6,345	6,345	6,196

The Corporation additionally has \$14,659 of unused tax credits, which have not been recognized as a tax asset as at December 31, 2012 (December 31, 2011 – \$5,587).

## (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, 2012	Dec 31, 2011
Income (loss) before income taxes	53,832	(39,021)
Statutory income tax rate	25.47%	28.17%
Income tax expense based on statutory income tax rate	13,711	(10,992)
Permanent differences	(1,461)	4,950
Tax rate differentials	(7,076)	764
Change in tax status	—	(34,808)
Unrecognized losses arising in the year	4,075	5,186
Other	859	(858)
Total income tax recovery	10,108	(35,758)

The weighted average applicable tax rate was 25.47% (2011 – 28.17%). The decrease in the weighted average rate is attributed to a change in the Federal and Ontario rates.

## NOTE 16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

### (A) Current Accounts Payable and Accrued Liabilities

	Dec 31, 2012	Dec 31, 2011
Accounts payable and accrued liabilities	100,465	77,233
Dividends payable	6,302	4,501
	106,767	81,734

### (B) Deferred Revenue

Deferred revenue represents grants and contributions received by the utilities – water segment in respect of assets that are not related to the water network less amounts amortized to the statement of income:

	2012	2011
As at January 1	1,363	—
Contributions received	4,856	1,396
Amortized to statement of income	(55)	—
Net foreign exchange difference	134	(33)
<b>As at December 31</b>	<b>6,298</b>	<b>1,363</b>

## NOTE 17. FINANCE LEASE OBLIGATIONS

	Interest Rate	Maturity	Dec 31, 2012	Dec 31, 2011
Power: equipment lease	7%	2012	—	129
Utilities – water: equipment leases	3.71 – 4.23%	2012 – 2020	7,201	11,854
			7,201	11,983
Less: current portion			(3,502)	(5,256)
<b>Non-current portion</b>			<b>3,699</b>	<b>6,727</b>

For the year ended December 31, 2012, the Corporation repaid \$5,172 (December 31, 2011 - \$133) on finance leases, including interest of \$221 (December 31, 2011 – \$108).

The minimum lease payments in the next five years and thereafter are reconciled to the finance lease obligation as follow:

	Within one year	One year to five years	Beyond five years	Less: future finance charges	Total
Utilities – water	3,528	2,689	2,572	(1,588)	7,201