

**NOTE 3. ACQUISITION AND DISPOSITION****Acquisition of Bristol Water**

On October 5, 2011, Capstone acquired a 70% indirect interest in Bristol Water, a regulated water utility in the United Kingdom, from Suez Environnement through its subsidiary, Agbar (Sociedad General de Aguas de Barcelona), for \$213,476. Transaction costs on acquisition of \$5,997 were expensed in the consolidated statement of income as part of administrative expenses for the year ended December 31, 2011.

The acquisition was accounted for using the purchase method of accounting. IFRS requires that Capstone recognize the identifiable assets acquired and liabilities assumed at their fair values. Goodwill is then recognized for the excess of the consideration paid over the net of the identifiable assets acquired and liabilities assumed measured at their fair values. Goodwill represents Capstone's ability to achieve financial and operational outperformance. On acquisition, the non-controlling interest has only been calculated on the fair value of the net identifiable assets.

The preliminary allocation of total consideration was allocated to net assets acquired and adjusted to the final allocation as follows:

As at October 5, 2011	Original	Adjustment	Revised
Working capital	804	849	1,653
Tangible assets	506,792	—	506,792
Intangible assets – licence	21,591	—	21,591
Intangible assets – goodwill	139,255	953	140,208
Incremental deferred income tax asset on acquisition	15,285	—	15,285
Less: net financial liabilities (net of cash received £24,324, \$39,487)	(375,310)	—	(375,310)
Other	(51,392)	—	(51,392)
Incremental deferred income tax liability on acquisition	(11,739)	(1,802)	(13,541)
Non-controlling interest	(31,810)	—	(31,810)
<b>Total cash consideration</b>	<b>213,476</b>	<b>—</b>	<b>213,476</b>

The amount allocated to goodwill is not deductible for income tax purposes.

**Partial Sale of Interest in Bristol Water**

On May 10, 2012, Capstone sold to I-Environment Investments Ltd, a subsidiary of ITOCHU Corporation, a 20% indirect interest in Bristol Water plc. I-Environment Investments Ltd acquired a 2/7ths ownership interest in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone received \$68,952 of net proceeds on sale and used the funds to repay the remaining \$28,975 on the senior debt facility and \$39,000 on the CPC-Cardinal credit facility, retaining cash of \$977.

Following this sale, Capstone retained a 50% beneficial interest in Bristol Water and continues to consolidate based on retention of control. Capstone recorded the transaction as a transfer of equity to non-controlling interest holders as follows:

As at May 10, 2012	\$
Proceeds on sale (£43,500)	70,274
Transaction costs	(1,322)
Net proceeds on sale	68,952
Taxes payable for gain on sale	(850)
Adjustment to total equity	68,102
Non-controlling interest adjustment	(52,408)
<b>Retained earnings adjustment</b>	<b>15,694</b>

In addition, the portion of cumulative differences on translation related to Bristol Water has been adjusted to the non-controlling interest acquired by ITOCHU Corporation as follows:

	AOCI	NCI
Non-controlling interest adjustment for partial sale of interest in Bristol Water	—	52,408
Transfer of cumulative differences on translation of foreign operations	749	(749)
<b>Non-controlling interest adjustment, net</b>	<b>749</b>	<b>51,659</b>