CANADIAN UTILITIES LIMITED

An ATCO Company

CANADIAN UTILITIES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the consolidated financial statements in accordance with International Financial Reporting Standards, which include amounts based on estimates and judgments. Management is also responsible for the preparation of the Management's Discussion and Analysis and other financial information contained in the Company's Annual Report, and ensures that it is consistent with the consolidated financial statements.

Management has established internal accounting and financial reporting control systems, which are subject to periodic review by the Company’s internal auditors, to meet its responsibility for reliable and accurate reporting. Integral to these control systems are a code of ethics and management policies that provide guidance and direction to employees, as well as a system of corporate governance that provides oversight to the Company’s operating, reporting and risk management activities.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the Audit & Risk Committee. The Audit & Risk Committee is comprised entirely of independent Directors. The Audit & Risk Committee meets regularly with management and the independent auditors to review significant accounting and financial reporting matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements.

PricewaterhouseCoopers LLP, our independent auditors, are engaged to perform an audit of the consolidated financial statements and expresses a professional opinion on the results. The Independent Auditor's Report to the Share Owners appears on the following page. PricewaterhouseCoopers LLP have full and independent access to the Audit & Risk Committee and management to discuss their audit and related matters.

[Original signed by N.C. Southern]
Chair & Chief Executive Officer

[Original signed by D. A. DeChamplain]
Senior Vice President & Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Share Owners of Canadian Utilities Limited

OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canadian Utilities Limited and its subsidiaries (together, the Company) as at December 31, 2018, December 31, 2017 and January 1, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of earnings for the years ended December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income for the years ended December 31, 2018 and December 31, 2017;
- the consolidated balance sheets as at December 31, 2018, December 31, 2017 and January 1, 2017;
- the consolidated statements of changes in equity for the years ended December 31, 2018 and December 31, 2017;
- the consolidated statements of cash flows for the years ended December 31, 2018 and December 31, 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements sectio*n of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shannon Ryhorchuk.

[Original signed by "PricewaterhouseCoopers LLP"]

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta

February 27, 2019

CONSOLIDATED STATEMENTS OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Year Ended December 31 2018	 2017 (Note 3)
Revenues	5	**4,377**	4,085
Costs and expenses			
Salaries, wages and benefits		**(428)**	(353)
Energy transmission and transportation		**(179)**	(208)
Plant and equipment maintenance		**(235)**	(212)
Fuel costs		**(221)**	(215)
Purchased power		**(175)**	(100)
Service concession arrangement costs	15	**(664)**	(456)
Depreciation and amortization	13, 14	**(638)**	(598)
Franchise fees		**(208)**	(229)
Property and other taxes		**(181)**	(122)
Unrealized gains (losses) on mark-to-market forward commodity contracts		**42**	(123)
Cost of sale of electricity generation asset on transition to finance lease	11	**–**	(115)
Other	6	**(366)**	(286)
		(3,253)	(3,017)
Proceeds from termination of Power Purchase Arrangement	4	**62**	–
Gain on sale of operation	30	**–**	30
Gain on sale of Barking Power assets	13	**125**	–
Loss from investment in ATCO Structures & Logistics	32	**–**	(4)
Earnings from investment in joint ventures	33	**24**	20
Operating profit		**1,335**	1,114
Interest income		**27**	22
Interest expense	7	**(496)**	(442)
Net finance costs		**(469)**	(420)
Earnings before income taxes		**866**	694
Income taxes	8	**(225)**	(173)
Earnings for the year		**641**	521
Earnings attributable to:			
Equity owners of the Company		**634**	514
Non-controlling interests		**7**	7
		641	521
Earnings per Class A and Class B share	9	**$2.08**	$1.66
Diluted earnings per Class A and Class B share	9	**$2.08**	$1.66

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Note	2018	Year Ended December 31 2017 (Note 3)
Earnings for the year		**641**	521
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits (1)	20	**(5)**	(22)
Items that are or may be reclassified subsequently to earnings:			
Cash flow hedges (2)		**(2)**	(30)
Cash flow hedges reclassified to earnings (3)		**8**	(2)
Foreign currency translation adjustment (4)		**2**	1
Foreign currency translation adjustment reclassified to earnings (4)	13	**15**	–
Share of other comprehensive loss of ATCO Structures & Logistics (4)	32	**–**	(9)
Share of other comprehensive loss of joint ventures (4)		**(2)**	–
		21	(40)
Other comprehensive income (loss)		**16**	(62)
Comprehensive income for the year		**657**	459
Comprehensive income attributable to:			
Equity owners of the Company		**650**	452
Non-controlling interests		**7**	7
		657	459

(1) Net of income taxes of $2 million for the year ended December 31, 2018 (2017 - $8 million).

(2) Net of income taxes of nil for the year ended December 31, 2018 (2017 - $11 million).

(3) Net of income taxes of $(3) million for the year ended December 31, 2018 (2017 - nil).

(4) Net of income taxes of nil.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	December 31 2018	December 31 2017 (Note 3)	January 1 2017 (Note 3)
ASSETS				
Current assets				
Cash and cash equivalents	24	**599**	425	345
Accounts receivable and contract assets	21	**676**	616	518
Finance lease receivables	11	**15**	15	12
Inventories	12	**31**	40	38
Income taxes receivable	8	**45**	35	35
Restricted project funds	10	**339**	861	–
Receivable under service concession arrangement	15	**67**	–	–
Prepaid expenses and other current assets		**84**	44	36
		1,856	2,036	984
Non-current assets				
Property, plant and equipment	13	**17,259**	16,786	16,363
Intangibles	14	**630**	563	526
Investment in ATCO Structures & Logistics	32	**–**	–	199
Investment in joint ventures	33	**195**	196	189
Finance lease receivables	11	**380**	395	302
Deferred income tax assets	8	**69**	84	80
Receivable under service concession arrangement	15	**1,329**	593	77
Restricted project funds	10	**–**	104	–
Other assets		**101**	82	81
Total assets		**21,819**	20,839	18,801
LIABILITIES				
Current liabilities				
Bank indebtedness	24	**–**	7	5
Accounts payable and accrued liabilities		**845**	827	609
Asset retirement obligations and other provisions	17	**32**	33	40
Other current liabilities		**88**	64	18
Short-term debt	16	**175**	–	55
Long-term debt	18	**485**	5	155
Non-recourse long-term debt	19	**20**	15	14
		1,645	951	896
Non-current liabilities				
Deferred income tax liabilities	8	**1,380**	1,229	1,135
Asset retirement obligations and other provisions	17	**142**	128	132
Retirement benefit obligations	20	**356**	340	302
Customer contributions	21	**1,798**	1,808	1,868
Other liabilities		**136**	148	49
Long-term debt	18	**8,419**	8,494	8,065
Non-recourse long-term debt	19	**1,381**	1,401	84
Total liabilities		**15,257**	14,499	12,531
EQUITY				
Equity preferred shares	22	**1,483**	1,483	1,483
Class A and Class B share owners' equity				
Class A and Class B shares	23	**1,226**	1,162	1,070
Contributed surplus		**15**	12	15
Retained earnings		**3,675**	3,541	3,505
Accumulated other comprehensive loss		**(24)**	(45)	(5)
Total equity attributable to equity owners of the Company		**6,375**	6,153	6,068
Non-controlling interests	34	**187**	187	202
Total equity		**6,562**	6,340	6,270
Total liabilities and equity		**21,819**	20,839	18,801

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern, DIRECTOR]

[Original signed by J.W. Simpson, DIRECTOR]

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Attributable to Equity Owners of the Company: Class A and Class B Shares	Equity Preferred Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Non-Controlling Interests	Total Equity
December 31, 2016, as previously reported	3	1,070	1,483	15	3,655	(5)	6,218	202	6,420
IFRS 15 re-measurement adjustments	3	–	–	–	(150)	–	(150)	–	(150)
January 1, 2017, restated	3	1,070	1,483	15	3,505	(5)	6,068	202	6,270
Earnings for the year, as previously reported		–	–	–	483	–	483	7	490
IFRS 15 re-measurement adjustments	3	–	–	–	31	–	31	–	31
Other comprehensive loss		–	–	–	–	(62)	(62)	–	(62)
Losses on retirement benefits transferred to retained earnings	20	–	–	–	(22)	22	–	–	–
Shares issued	23	90	–	–	–	–	90	–	90
Dividends	22, 23	–	–	–	(453)	–	(453)	(7)	(460)
Share-based compensation	35	2	–	(3)	–	–	(1)	–	(1)
Other		–	–	–	–	–	–	(15)	(15)
December 31, 2017, restated, after IFRS 15 re-measurement adjustments		1,162	1,483	12	3,544	(45)	6,156	187	6,343
December 31, 2017, as previously reported	3	1,162	1,483	12	3,663	(45)	6,275	187	6,462
IFRS 15 and IFRS 9 re-measurement adjustments	3	–	–	–	(122)	–	(122)	–	(122)
January 1, 2018, restated	3	1,162	1,483	12	3,541	(45)	6,153	187	6,340
Earnings for the year		–	–	–	**634**	–	**634**	**7**	**641**
Other comprehensive income		–	–	–	–	**16**	**16**	–	**16**
Losses on retirement benefits transferred to retained earnings	20	–	–	–	**(5)**	**5**	–	–	–
Shares issued	23	**63**	–	–	–	–	**63**	–	**63**
Dividends	22, 23	–	–	–	**(495)**	–	**(495)**	**(7)**	**(502)**
Share-based compensation	35	**1**	–	**3**	–	–	**4**	–	**4**
December 31, 2018		**1,226**	**1,483**	**15**	**3,675**	**(24)**	**6,375**	**187**	**6,562**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	2018	Year Ended December 31 2017 (Note 3)
Operating activities			
Earnings for the year		**641**	521
Adjustments to reconcile earnings to cash flows from operating activities	24	**1,141**	1,240
Changes in non-cash working capital	24	**(109)**	67
Change in receivable under service concession arrangement	15	**(803)**	(516)
Cash flows from operating activities		**870**	1,312
Investing activities			
Additions to property, plant and equipment		**(1,036)**	(1,127)
Proceeds on disposal of property, plant and equipment		**4**	18
Proceeds on sale of Barking Power assets	13	**219**	–
Additions to intangibles		**(100)**	(90)
Acquisition, net of cash acquired	29	**(70)**	–
Proceeds on sale of operation	30	**–**	47
Proceeds on sale of investment in ATCO Structures & Logistics	32	**–**	140
Investment in joint ventures		**(6)**	(12)
Changes in non-cash working capital	24	**(69)**	4
Other		**(7)**	2
Cash flows used in investing activities		**(1,065)**	(1,018)
Financing activities			
Net issue of short-term debt	16,24	**175**	(55)
Issue of long-term debt	18,24	**1,088**	430
Release of restricted project funds	10	**726**	374
Repayment of long-term debt	24	**(712)**	(155)
Repayment of non-recourse long-term debt		**(16)**	(14)
Issue of Class A shares		**1**	4
Dividends paid on equity preferred shares	22	**(67)**	(67)
Dividends paid to non-controlling interests	34	**(7)**	(7)
Dividends paid to Class A and Class B share owners	23	**(365)**	(296)
Interest paid		**(477)**	(413)
Debt issue costs		**(6)**	(11)
Other		**27**	(7)
Cash flows from (used in) financing activities		**367**	(217)
Increase in cash position [(1)]		**172**	77
Foreign currency translation		**9**	1
Beginning of year		**418**	340
End of year	24	**599**	418

(1) Cash position includes $54 million which is not available for general use by the Company (2017 - $43 million).

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

(Tabular amounts in millions of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

Canadian Utilities Limited was incorporated under the laws of Canada and is listed on the Toronto Stock Exchange. Its head office is at 4th floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4 and its registered office is 20th Floor, 10035 - 105 Street, Edmonton, Alberta T5J 2V6. The Company is controlled by ATCO Ltd. and its controlling share owner, the Southern family.

Canadian Utilities Limited is engaged in the following global business activities:

- Electricity (electricity generation, distributed generation, and electricity distribution, transmission and infrastructure development);
- Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); and
- Retail Energy (included in the Corporate & Other segment).

The consolidated financial statements include the accounts of Canadian Utilities Limited and its subsidiaries (see Note 31), and the accounts of a proportionate share of the Company's investment in joint operations and joint ventures (see Note 33). The statements also include the Company's equity-accounted investment in ATCO Structures & Logistics (24.5 per cent) up to December 31, 2017, when it was sold to ATCO Ltd. (see Note 32). In these financial statements, "the Company" means Canadian Utilities Limited, its subsidiaries and joint arrangements.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC).

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 27, 2019.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 39.

Certain comparative figures have been reclassified to conform to the current presentation.

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Canadian dollars. Each entity within the Company determines its own functional currency based on the primary economic environment in which it operates.

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, estimates and assumptions are described in Note 28.

3. CHANGE IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS CREDIT LOSSES

The Company adopted the final component of IFRS 9 *Financial Instruments, Impairments*, on January 1, 2018. This component includes a new expected credit loss model. The new model takes into account an expectation of future events by estimating credit losses based on an assessment of counterparty credit risk. The change results in earlier recognition of bad debt expense. See below for the impact of adopting IFRS 9 on January 1, 2018.

REVENUE RECOGNITION

The Company adopted IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018, using the full retrospective transition method. Under the full retrospective transition method, the comparative figures for 2017 in the Company's consolidated financial statements have been restated. Certain practical expedients have been applied.

See Note 39 for accounting policies on revenue recognition.

Practical expedients

Effective January 1, 2017, the IFRS 15 transition date, the Company elected to use the following practical expedients:

(i) Information on the remaining performance obligations that have an original expected duration of one year or less is not disclosed;

(ii) For periods presented before January 1, 2018, the IFRS 15 adoption date, the information regarding the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognize this amount as revenue, are not disclosed;

(iii) Costs to obtain or fulfill a contract with an amortization period of less than a year have been expensed as incurred;

(iv) Where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance to date, revenue is recognized in the amount to which the Company has a right to invoice (Right-to-Invoice). Such performance obligations include:

- Provision of continuous distribution of electricity service;
- Provision of continuous distribution of natural gas service;
- Provision of transmission of electricity service;
- Provision of transmission of natural gas service;
- Certain operating and maintenance services; and
- Supply of electricity and natural gas to businesses and households.

Remaining performance obligations

The Company is party to performance obligations, which have a duration of more than one year, are not subject to the Right-to-Invoice practical expedient, and do not include variable consideration which is constrained (remaining performance obligations). At December 31, 2018, the most significant remaining performance obligations are as follows:

(i) the Company's 35-year service concession arrangement that amounts to $1.0 billion. The Company expects that approximately 11 per cent of the amount will be recognized as revenue during the three months ending March 31, 2019, and approximately 5 per cent of the amount will be recognized as revenue during the nine months ending December 31, 2019, subject to satisfaction of related performance obligations.

(ii) Provision of the contracted electricity generation capacity over the life of a contract under the terms of fixed payments consideration that in aggregate approximates $0.2 billion. The Company expects that approximately 3 per cent of the amount will be recognized as revenue during the three months ending March 31, 2019, and approximately 6 per cent of the amount will be recognized as revenue during the nine months ending December 31, 2019.

(iii) Provision of storage and industrial water services over the life of a contract that in aggregate approximates $0.2 billion. The Company expects that approximately 2 per cent of the amount will be recognized as revenue during the three months ending March 31, 2019, and approximately 4 per cent of the amount will be recognized as revenue during the nine months ending December 31, 2019.

IMPACT OF CHANGES IN ACCOUNTING POLICIES

The impact on amounts recognized in the Company's consolidated statement of earnings for the year ended December 31, 2017, is shown below.

		Year ended December 31, 2017		
(millions of Canadian Dollars except per share data)	**Note**	**As previously reported**	**IFRS 15 re-measurement adjustments**	**Restated**
Revenues	(ii), (iii), (iv), (v)	4,027	58	4,085
Costs and expenses				
Salaries, wages and benefits		(353)	–	(353)
Energy transmission and transportation	(iv)	(269)	61	(208)
Plant and equipment maintenance		(212)	–	(212)
Fuel costs	(iii)	(149)	(66)	(215)
Purchased power		(100)	–	(100)
Service concession arrangement costs		(456)	–	(456)
Depreciation and amortization		(598)	–	(598)
Franchise fees		(229)	–	(229)
Property and other taxes		(122)	–	(122)
Unrealized losses on mark-to-market forward commodity contracts		(123)	–	(123)
Cost of sale of electricity generation asset on transition to finance lease		(115)	–	(115)
Other		(286)	–	(286)
		(3,012)	(5)	(3,017)
Gain on sale of operation		30	–	30
Loss from investment in ATCO Structures & Logistics		(4)	–	(4)
Earnings from investment in joint ventures		20	–	20
Operating profit		1,061	53	1,114
Interest income		22	–	22
Interest expense	(v)	(431)	(11)	(442)
Net finance costs		(409)	(11)	(420)
Earnings before income taxes		652	42	694
Income taxes	(ii)	(162)	(11)	(173)
Earnings for the year		490	31	521
Earnings attributable to:				
Equity owners of the Company		483	31	514
Non-controlling interests		7	–	7
		490	31	521
Earnings per Class A and Class B share	9	$1.54	$0.12	$1.66
Diluted earnings per Class A and Class B share	9	$1.54	$0.12	$1.66

The cumulative effect of the adjustments made to the amounts recognized in the Company's consolidated balance sheets as at January 1, 2017, and at December 31, 2017, is shown below.

				January 1, 2017
(millions of Canadian Dollars)	**Note**	**As previously reported**	**IFRS 15 re-measurement adjustments**	**Restated**
ASSETS				
Current assets				
Cash and cash equivalents		345	–	345
Accounts receivable and contract assets		518	–	518
Finance lease receivables		12	–	12
Inventories		38	–	38
Income taxes receivable		35	–	35
Prepaid expenses and other current assets		37	(1)	36
		985	(1)	984
Non-current assets				
Property, plant and equipment		16,363	–	16,363
Intangibles		526	–	526
Investment in ATCO Structures & Logistics		199	–	199
Investment in joint ventures		189	–	189
Finance lease receivables		302	–	302
Deferred income tax assets	(ii)	55	25	80
Receivable under service concession arrangement		77	–	77
Other assets		85	(4)	81
Total assets		18,781	20	18,801
LIABILITIES				
Current liabilities				
Bank indebtedness		5	–	5
Accounts payable and accrued liabilities	(ii)	605	4	609
Asset retirement obligations and other provisions		40	–	40
Other current liabilities		18	–	18
Short-term debt		55	–	55
Long-term debt		155	–	155
Non-recourse long-term debt		14	–	14
		892	4	896
Non-current liabilities				
Deferred income tax liabilities	(ii)	1,163	(28)	1,135
Asset retirement obligations and other provisions		132	–	132
Retirement benefit obligations		302	–	302
Customer contributions	(ii)	1,687	181	1,868
Other liabilities	(ii)	36	13	49
Long-term debt		8,065	–	8,065
Non-recourse long-term debt		84	–	84
Total liabilities		12,361	170	12,531
EQUITY				
Equity preferred shares		1,483	–	1,483
Class A and Class B share owners' equity				
Class A and Class B shares		1,070	–	1,070
Contributed surplus		15	–	15
Retained earnings	(ii)	3,655	(150)	3,505
Accumulated other comprehensive loss		(5)	–	(5)
Total equity attributable to equity owners of the Company		6,218	(150)	6,068
Non-controlling interests		202	–	202
Total equity		6,420	(150)	6,270
Total liabilities and equity		18,781	20	18,801

(millions of Canadian Dollars)	Note	As previously reported	IFRS 15 re-measurement adjustments	IFRS 9 re-measurement adjustments	Restated
					December 31, 2017
ASSETS					
Current assets					
Cash and cash equivalents		425	–	–	425
Accounts receivable and contract assets	(i)	619	–	(3)	616
Finance lease receivables		15	–	–	15
Inventories		40	–	–	40
Income taxes receivable		35	–	–	35
Restricted project funds		861	–	–	861
Prepaid expenses and other current assets		45	(1)	–	44
		2,040	(1)	(3)	2,036
Non-current assets					
Property, plant and equipment		16,786	–	–	16,786
Intangibles		563	–	–	563
Investment in joint ventures		196	–	–	196
Finance lease receivables		395	–	–	395
Deferred income tax assets	(ii)	62	22	–	84
Receivable under service concession arrangement		593	–	–	593
Restricted project funds		104	–	–	104
Other assets		86	(4)	–	82
Total assets		20,825	17	(3)	20,839
LIABILITIES					
Current liabilities					
Bank indebtedness		7	–	–	7
Accounts payable and accrued liabilities	(ii)	824	3	–	827
Asset retirement obligations and other provisions		33	–	–	33
Other current liabilities		64	–	–	64
Long-term debt		5	–	–	5
Non-recourse long-term debt		15	–	–	15
		948	3	–	951
Non-current liabilities					
Deferred income tax liabilities	(ii)	1,248	(19)	–	1,229
Asset retirement obligations and other provisions		128	–	–	128
Retirement benefit obligations		340	–	–	340
Customer contributions	(ii)	1,676	132	–	1,808
Other liabilities	(ii)	128	20	–	148
Long-term debt		8,494	–	–	8,494
Non-recourse long-term debt		1,401	–	–	1,401
Total liabilities		14,363	136	–	14,499
EQUITY					
Equity preferred shares		1,483	–	–	1,483
Class A and Class B share owners' equity					
Class A and Class B shares		1,162	–	–	1,162
Contributed surplus		12	–	–	12
Retained earnings	(ii)	3,663	(119)	(3)	3,541
Accumulated other comprehensive loss		(45)	–	–	(45)
Total equity attributable to equity owners of the Company		6,275	(119)	(3)	6,153
Non-controlling interests		187	–	–	187
Total equity		6,462	(119)	(3)	6,340
Total liabilities and equity		20,825	17	(3)	20,839

Impact of adoption of IFRS 9 on consolidated financial statements

(i) To determine the amount of expected credit losses, the Company used default and recoverability probabilities for the majority of its operations and a credit loss allowance matrix for certain operations in the Corporate & Other operating segments.

At January 1, 2018, the total credit loss allowance was $4 million, which includes $3 million determined based on third party average default and recoverability probabilities and $1 million based on the credit loss allowance matrix method. This resulted in an increase of $3 million in the credit loss allowance on adoption of IFRS 9.

Impact of adoption of IFRS 15 on consolidated financial statements

(ii) The timing differences between consideration received and satisfaction of the provision of availability or existence of the contracted electricity generation capacity performance obligation in the Electricity operating segment resulted in the recognition of customer contributions on January 1, 2017 and over the remaining terms of the IPP contracts. Customer contributions represent a significant financing component, as there is a benefit that has been or will be realized due to the timing of the consideration received in advance of satisfaction of the performance obligation.

At January 1, 2017, the Company recorded a decrease to retained earnings of $150 million, deferred income tax liabilities of $28 million, prepaid expenses and other current assets of $1 million, other assets of $4 million, with a corresponding increase of $181 million to customer contributions, $13 million to other liabilities, $25 million to deferred income tax assets and $4 million to current portion of customer contributions included in accounts payable and accrued liabilities.

At December 31, 2017, the Company recorded a decrease to retained earnings of $119 million, deferred income tax liabilities of $19 million, prepaid expenses and other current assets of $1 million, other assets of $4 million, with a corresponding increase of $132 million to customer contributions, $20 million to other liabilities, $22 million to deferred income tax assets and $3 million to current portion of customer contributions included in accounts payable and accrued liabilities.

The customer contributions recorded at transition to IFRS 15 will be recognized in earnings in future years, up to and including 2043.

During the year ended December 31, 2017, the Company recorded a decrease to revenues from electricity generation and delivery of $10 million, and a decrease to income taxes of $3 million, respectively, due to the recognition of customer contributions. The Company also recorded an increase to revenues from electricity generation and delivery of $59 million, and an increase to income taxes of $16 million, respectively, due to the derecognition of customer contributions upon transition to finance lease (see Note 11). The Company also recorded a decrease to revenues from electricity generation and delivery of $7 million, and a decrease to income taxes of $2 million, respectively, due to the recognition of variable constraints. As a result of these adjustments, in the consolidated statement of cash flow for the year ended December 31, 2017, the Company recorded an increase to earnings of $31 million, with a corresponding decrease of $31 million to adjustments to reconcile earnings to cash flows from operating activities, respectively.

(iii) As a result of recognizing non-cash consideration received from customers during the year ended December 31, 2017, at fair value, the Company recorded an increase to revenue from electricity generation and delivery of $66 million, with a corresponding increase of $66 million to fuel costs, respectively.

(iv) As a result of the agent classification of certain charges collected from customers on behalf of distribution and transmission services providers during the year ended December 31, 2017, the Company recorded a decrease to revenue from commodity sales of $61 million, with a corresponding decrease of $61 million to energy transmission and transportation costs, respectively.

(v) As a result of recognizing the financing component on upfront consideration received from customers during the year ended December 31, 2017, the Company recorded an increase to revenue from electricity generation and delivery of $11 million, with a corresponding increase of $11 million to interest expense, respectively.

4. SEGMENTED INFORMATION

The Company's operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM is comprised of the Chair and Chief Executive Officer, and the other members of the Executive Committee.

The accounting policies applied by the segments are the same as those applied by the Company, except for those used in the calculation of adjusted earnings. Intersegment transactions are measured at the exchange amount, as agreed to by the related parties.

Management has determined that the operating subsidiaries in the reportable segments below share similar economic characteristics, as such, they have been aggregated.

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

Electricity	The Electricity segment includes ATCO Electric, ATCO Power, Alberta PowerLine, and ATCO Power Australia. Together these businesses provide electricity generation, transmission, distribution and related infrastructure solutions in Alberta, Ontario, the Yukon, the Northwest Territories, Australia and Mexico.
Pipelines & Liquids	The Pipelines & Liquids segment includes ATCO Gas, ATCO Pipelines, ATCO Gas Australia, and ATCO Energy Solutions. These businesses provide integrated natural gas transmission, distribution and storage, industrial water solutions and related infrastructure development throughout Alberta, the Lloydminster area of Saskatchewan, Western Australia and Mexico.
Corporate & Other	Canadian Utilities Limited Corporate & Other includes intersegment eliminations and ATCO Energy, a retail electricity and natural gas business in Alberta.

Results by operating segment for the year ended December 31 are shown below.

2018 2017 (restated)	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**2,841**	**1,415**	**121**	**–**	**4,377**
	2,432	1,596	57	–	4,085
Revenues - intersegment	**17**	**55**	**41**	**(113)**	**–**
	28	34	38	(100)	–
Revenues	**2,858**	**1,470**	**162**	**(113)**	**4,377**
	2,460	1,630	95	(100)	4,085
Operating expenses [(1)]	**(1,671)**	**(860)**	**(196)**	**112**	**(2,615)**
	(1,527)	(871)	(123)	102	(2,419)
Depreciation and amortization	**(386)**	**(254)**	**(7)**	**9**	**(638)**
	(373)	(226)	(8)	9	(598)
Proceeds from termination of Power Purchase Arrangement	**62**	**–**	**–**	**–**	**62**
	–	–	–	–	–
Other intersegment gains and losses (*Note 30*)	**–**	**–**	**–**	**–**	**–**
	–	–	30	–	30
Gain on sale of Barking Power assets (*Note 13*)	**125**	**–**	**–**	**–**	**125**
	–	–	–	–	–
Loss from investment in ATCO Structures & Logistics	**–**	**–**	**–**	**–**	**–**
	–	–	(4)	–	(4)
Earnings from investment in joint ventures	**15**	**9**	**–**	**–**	**24**
	17	3	–	–	20
Net finance costs	**(322)**	**(156)**	**11**	**(2)**	**(469)**
	(281)	(146)	9	(2)	(420)
Earnings before income taxes	**681**	**209**	**(30)**	**6**	**866**
	296	390	(1)	9	694
Income taxes	**(176)**	**(59)**	**12**	**(2)**	**(225)**
	(82)	(107)	18	(2)	(173)
Earnings for the year	**505**	**150**	**(18)**	**4**	**641**
	214	283	17	7	521
Adjusted earnings	**434**	**247**	**(74)**	**–**	**607**
	397	273	(69)	1	602
Total assets	**13,494**	**7,842**	**574**	**(91)**	**21,819**
	13,007	7,489	449	(106)	20,839
Capital expenditures [(2)]	**497**	**643**	**16**	**–**	**1,156**
	454	777	3	–	1,234

(1) Includes total costs and expenses, excluding depreciation and amortization expense.
(2) Includes additions to property, plant and equipment and intangibles and $20 million of interest capitalized during construction for the year ended December 31, 2018 (2017 - $17 million).

GEOGRAPHIC SEGMENTS

Financial information by geographic area is summarized below.

Revenues - external

	2018	2017 (restated)
Canada	**4,173**	3,881
Australia	**189**	203
Other	**15**	1
Total	**4,377**	4,085

Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets [(1)]		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Canada	**15,919**	15,451	**611**	543	**247**	231	**16,777**	16,225
Australia	**1,204**	1,173	**18**	20	**31**	32	**1,253**	1,225
Other	**136**	162	**1**	–	**11**	11	**148**	173
Total	**17,259**	16,786	**630**	563	**289**	274	**18,178**	17,623

(1) Other assets exclude financial instruments and deferred income tax assets.

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to equity owners of the Company after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- dividends on equity preferred shares of the Company,
- one-time gains and losses,
- unrealized gains and losses on mark-to-market forward commodity contracts,
- significant impairments, and
- items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings used by the CODM to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the year ended December 31 is shown below.

2018 2017 (restated)	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**434**	**247**	**(74)**	**–**	**607**
	397	273	(69)	1	602
Gain on sale of operation (*Note 30*)	**–**	**–**	**–**	**–**	**–**
	–	–	30	–	30
Proceeds from termination of Power Purchase Arrangement	**36**	**–**	**–**	**–**	**36**
	–	–	–	–	–
Restructuring and other costs	**(36)**	**(19)**	**(5)**	**–**	**(60)**
	–	–	–	–	–
Derecognition of customer contributions (Muskeg) (*Note 11*)	**–**	**–**	**–**	**–**	**–**
	31	–	–	–	31
Impairment	**–**	**–**	**–**	**–**	**–**
	–	–	(7)	–	(7)
Sale of Barking Power assets (Note 13)	**87**	**–**	**–**	**–**	**87**
	–	–	–	–	–
Unrealized gain (losses) on mark-to-market forward commodity forward commodity contracts	**31**	**–**	**–**	**–**	**31**
	(90)	–	–	–	(90)
Rate-regulated activities	**(55)**	**(82)**	**–**	**4**	**(133)**
	(131)	6	–	6	(119)
Dividends on equity preferred shares of Canadian Utilities Limited	**4**	**2**	**61**	**–**	**67**
	3	1	63	–	67
Other	**–**	**(1)**	**–**	**–**	**(1)**
	–	–	–	–	–
Earnings attributable to equity owners of the Company	**501**	**147**	**(18)**	**4**	**634**
	210	280	17	7	514
Earnings attributable to non-controlling interests					**7**
					7
Earnings for the year					**641**
					521

Gain on sale of operation

In 2017, the Company adjusted for a one-time after-tax gain of $30 million on sale of real estate operations (see Note 30).

Proceeds from termination of Power Purchase Arrangement

Effective September 30, 2018, the Battle River unit 5 Power Purchase Arrangement (PPA) was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities Limited. Canadian Utilities Limited received a $62 million payment ($45 million after-tax) from the Balancing Pool and recorded this amount as proceeds from termination of Power Purchase Arrangement in the statement of earnings for the year ended December 31, 2018. Battle River generating facility coal-related costs and Asset Retirement Obligations of $12 million ($9 million after-tax) were also recorded. Due to the termination of the Battle River unit 5 PPA, the related cash generating unit was tested for impairment, and no impairment loss was required to be recorded.

This one-time receipt and costs in the net amount of $36 million after-tax were excluded from adjusted earnings.

Restructuring and other costs

In the second quarter of 2018, the Company recorded restructuring and other costs of $60 million, after-tax, that were not in the normal course of business. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.

Derecognition of customer contributions

In December 2017, ATCO Power signed a contract amendment that triggered a reassessment of the accounting treatment of the Muskeg River generating plant (Muskeg). Due to the nature of the contract amendment, IFRS requires that this agreement be accounted for as a finance lease. As a result, the Company recorded an increase to earnings of $31 million after-tax on derecognition of customer contributions on transitioning to finance lease accounting.

Impairment

In 2017, the Company adjusted for its share of the impairment included in equity earnings from investment in ATCO Structures & Logistics, which amounted to $7 million, after-tax (see Note 32).

Sale of Barking Power assets

On December 14, 2018, Canadian Utilities Limited sold its 100 per cent ownership interests in Thames Power Services Limited and Barking Power Limited. The Company recorded a gain on sale of the Barking Power assets of $125 million before tax (See Note 13) ($100 million after tax). Of the $100 million after-tax gain, $87 million was excluded from Adjusted Earnings.

Unrealized gains and losses on mark-to-market forward commodity contracts

The Company enters into forward contracts in order to optimize available merchant capacity and manage exposure to electricity market price movements for its Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. The forward contracts are measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts are recognized in earnings where hedge accounting is not applied. The CODM believes that removal of the unrealized gains or losses on mark-to-market forward commodity contracts provides a better representation of operating results for the Company's Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas, ATCO Pipelines and ATCO Gas Australia are collectively referred to as utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulators' decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

	Timing Adjustment	**Items**	**RRA Treatment**	**IFRS Treatment**
1.	Additional revenues billed in current period	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes, impact of warmer temperatures, and impact of inflation on rate base.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

At December 31, the significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	2018	2017
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**74**	61
Impact of colder temperatures (2)	**12**	–
Revenues to be billed in future periods		
Deferred income taxes (3)	**(105)**	(102)
Impact of warmer temperatures (2)	–	(4)
Impact of inflation on rate base (4)	**(17)**	(15)
Regulatory decisions received (5)	–	17
Settlement of regulatory decisions and other items (6)	**(97)**	(76)
	(133)	(119)

(1) Removal and site restoration costs are billed to customers over the estimated useful life of the related assets based on forecast costs to be incurred in future periods.

(2) ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(3) Income taxes are billed to customers when paid by the Company.

(4) The inflation-indexed portion of ATCO Gas Australia's rate base is billed to customers through the recovery of depreciation in subsequent periods based on the actual rate of inflation. Under rate-regulated accounting, revenue is recognized in the current period for the inflation component of rate base when it is earned. Differences between the amounts earned and the amounts billed to customers are deferred and recognized in revenues over the service life of the related assets.

(5) In 2017, the most significant regulatory decision received was the General Tariff Application related to ATCO Electric Transmission operations.

(6) In 2018, ATCO Electric Transmission operations recorded a decrease in earnings of $38 million mainly related to a refund of deferral account balances relating to 2013 and 2014. ATCO Gas also recorded a reduction in earnings of $59 million mainly related to a refund of previously over-collected transmission costs. In 2017, ATCO Electric Transmission operations recorded a decrease in earnings of $33 million related to the settlement of final 2015-2017 General Tariff Application rate and a decrease to earnings of $27 related to the refund of previously collected capitalized pension costs.

Other

Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. In 2018, the Company recorded a foreign exchange loss of $1 million (2017 - nil) due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

5. REVENUES

The Company disaggregates revenues based on the revenue streams and by regulated and non-regulated business operations. The disaggregation of revenues by revenue streams by each operating segment for the year ended December 31 are shown below:

2018 2017 (restated)	Electricity	Pipelines & Liquids	Corporate & Other	Total
Revenue Streams				
Sale of Goods				
Electricity generation and delivery	**526**	**–**	**–**	**526**
	215	–	–	215
Commodity sales	**19**	**13**	**–**	**32**
	17	13	–	30
Total sale of goods	**545**	**13**	**–**	**558**
	232	13	–	245
Rendering of Services				
Distribution services	**567**	**905**	**–**	**1,472**
	505	1,039	–	1,544
Transmission services	**622**	**245**	**–**	**867**
	629	256	–	885
Customer contributions	**47**	**18**	**–**	**65**
	87	18	–	105
Franchise fees	**25**	**183**	**–**	**208**
	22	207	–	229
Retail electricity and natural gas services	**–**	**–**	**114**	**114**
	–	–	52	52
Storage and industrial water	**–**	**47**	**–**	**47**
	–	55	–	55
Total rendering of services	**1,261**	**1,398**	**114**	**2,773**
	1,243	1,575	52	2,870
Lease income				
Finance lease	**35**	**–**	**–**	**35**
	33	–	–	33
Operating lease	**172**	**–**	**–**	**172**
	206	–	–	206
Total lease income	**207**	**–**	**–**	**207**
	239	–	–	239
Service concession arrangement	**803**	**–**	**–**	**803**
	516	–	–	516
Other (1)	**25**	**4**	**7**	**36**
	202	8	5	215
Total	**2,841**	**1,415**	**121**	**4,377**
	2,432	1,596	57	4,085

(1) *In 2017, Electricity has included $175 million of gain on sale of electricity generation asset on transition to a finance lease (see Note 11) .*

Disaggregation of revenues by rate-regulated and non-rate-regulated business operations is shown below:

	Year Ended December 31	
	2018	2017 (restated)
Rate-regulated business operations		
Rate-regulated Electricity		
Electricity Distribution	**624**	556
Electricity Transmission	**640**	641
	1,264	1,197
Rate-regulated Pipelines & liquids		
Natural Gas Distribution	**935**	1,086
Natural Gas Transmission	**252**	263
International Natural Gas Distribution	**168**	182
	1,355	1,531
Total rate-regulated business operations	**2,619**	2,728
Non-rate-regulated business operations		
Non-rate-regulated Electricity		
Independent Power Plants	**318**	257
Thermal PPA Plants	**418**	260
International Power Generation	**19**	21
Service concession arrangement	**803**	516
	1,558	1,054
Non-rate-regulated Pipelines & liquids		
Storage and Industrial Water	**47**	55
	47	55
Other non-rate-regulated business operations		
Retail Electricity and Natural Gas Services	**114**	52
Other (1)	**39**	196
	153	248
Total non-rate-regulated business operations	**1,758**	1,357
Total	**4,377**	4,085

(1) In 2017, Electricity has included $175 million of gain on sale of electricity generation asset on transition to a finance lease (see Note 11) .

6. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, realized gains and losses on derivative financial instruments, goods and services such as professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

7. INTEREST EXPENSE

Interest expense primarily arises from interest on long-term debentures. The components of interest expense are summarized below.

	2018	2017 (restated)
Long-term debt	**412**	396
Non-recourse long-term debt	**60**	21
Retirement benefits net interest expense	**13**	13
Amortization of deferred financing charges	**5**	3
Accretion of asset retirement obligations	**3**	2
Short-term debt	**11**	11
Other	**12**	13
	516	459
Less: interest capitalized *(Note 13)*	**(20)**	(17)
	496	442

Borrowing costs capitalized to property, plant and equipment during 2018 were calculated by applying a weighted average interest rate of 4.70 per cent to expenditures on qualifying assets (2017 - 4.82 per cent).

8. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2018	2017 (restated)
Current income tax expense		
Canada	**64**	63
Australia	**–**	2
Adjustment in respect of prior years	**(4)**	–
	60	65
Deferred income tax expense		
Reversal of temporary differences	**163**	108
Amount relating to change in tax rates	**(1)**	–
Adjustment in respect of prior years	**3**	–
	165	108
	225	173

The reconciliation of statutory and effective income tax expense is as follows:

	2018		2017 (restated)	
Earnings before income taxes	**866**	**%**	694	%
Income taxes, at statutory rates	**234**	**27.0**	187	27.0
International financing	**(5)**	**(0.6)**	(8)	(1.2)
Equity earnings	**(2)**	**(0.2)**	(2)	(0.3)
Unrecognized deferred income tax assets	**4**	**0.5**	5	0.7
Non-taxable gains	**(6)**	**(0.7)**	(11)	(1.6)
Tax cost of preferred share financings	**2**	**0.2**	2	0.3
Other	**(2)**	**(0.2)**	–	–
	225	**26.0**	173	24.9

INCOME TAX ASSETS AND LIABILITIES

Income tax assets and liabilities in the consolidated balance sheet at December 31 are summarized below.

	Balance Sheet Presentation	2018	2017 (restated)
Income tax assets			
Current	Income taxes receivable	**45**	35
Deferred	Deferred income tax assets	**69**	84
		114	119
Income tax liabilities			
Current	Other current liabilities	**35**	17
Deferred	Deferred income tax liabilities	**1,380**	1,229
		1,415	1,246

DEFERRED INCOME TAXES

The changes in deferred income tax assets are as follows:

Movements	Note	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Other	Total
December 31, 2016, as previously reported	3	22	(3)	23	10	3	55
IFRS 15 re-measurement adjustments	3	–	–	25	–	–	25
January 1, 2017, restated	3	22	(3)	48	10	3	80
Credit (charge) to earnings		6	–	(2)	4	–	8
IFRS 15 re-measurement adjustments	3	–	–	(3)	–	–	(3)
Other		–	1	(1)	–	(1)	(1)
December 31, 2017, restated	3	28	(2)	42	14	2	84
(Charge) credit to earnings		**(14)**	**(1)**	**(8)**	**7**	**1**	**(15)**
December 31, 2018		**14**	**(3)**	**34**	**21**	**3**	**69**

The Company does not expect any of the deferred income tax assets to reverse within the next twelve months.

The changes in deferred income tax liabilities are as follows:

Movements	Note	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2016, as previously reported	3	1,218	113	–	(76)	(110)	18	1,163
IFRS 15 re-measurement adjustments	3	–	–	(28)	–	–	–	(28)
January 1, 2017, restated	3	1,218	113	(28)	(76)	(110)	18	1,135
Charge (credit) to earnings		144	(15)	(27)	(2)	(8)	13	105
IFRS 15 re-measurement adjustments	3	–	–	9	–	–	–	9
Credit to other comprehensive income		–	–	(11)	–	(8)	–	(19)
Other		(1)	–	(1)	–	–	1	(1)
December 31, 2017, restated after IFRS 15 re-measurement adjustments	3	1,361	98	(58)	(78)	(126)	32	1,229
Charge (credit) to earnings		**159**	**10**	**11**	**(19)**	**(7)**	**(4)**	**150**
Charge (credit) to other comprehensive income		–	–	**2**	–	**(2)**	–	–
Acquisition		**(4)**	**10**	–	**(2)**	–	–	**4**
Foreign exchange adjustment		**(1)**	–	–	–	–	–	**(1)**
Other		**1**	**(1)**	**(2)**	**(1)**	–	**1**	**(2)**
December 31, 2018		**1,516**	**117**	**(47)**	**(100)**	**(135)**	**29**	**1,380**

The Company expects approximately $1 million of its deferred income tax liabilities to reverse within the next twelve months.

At December 31, 2018, the Company had $505 million of non-capital tax losses and credits which expire between 2025 and 2038 and $13 million of tax losses which do not expire. The Company recognized deferred income tax assets of $121 million for losses and credits that expire.

9. EARNINGS PER SHARE

Earnings per Class A non-voting (Class A) and Class B common (Class B) share are calculated by dividing the earnings attributable to Class A and Class B shares by the weighted average shares outstanding. Diluted earnings per share are calculated using the treasury stock method, which reflects the potential exercise of stock options and vesting of shares under the Company's mid-term incentive plan (MTIP) on the weighted average Class A and Class B shares outstanding.

The earnings and average number of shares used to calculate earnings per share are as follows:

		Year Ended December 31
	2018	2017 (restated)
Average shares		
Weighted average shares outstanding	**271,464,390**	269,437,739
Effect of dilutive stock options	**33,220**	85,271
Effect of dilutive MTIP	**568,528**	531,805
Weighted average dilutive shares outstanding	**272,066,138**	270,054,815
Earnings for earnings per share calculation		
Earnings for the year	**641**	521
Dividends on equity preferred shares of the Company	**(67)**	(67)
Dividends to non-controlling interests	**(7)**	(7)
Earnings attributable to Class A and B shares	**567**	447
Earnings and diluted earnings per Class A and Class B share		
Earnings per Class A and Class B share	**$2.08**	$1.66
Diluted earnings per Class A and Class B share	**$2.08**	$1.66

10. RESTRICTED PROJECT FUNDS

At December 31, 2018, Alberta PowerLine (APL), a partnership between Canadian Utilities Limited and Quanta Services Inc., that was awarded a 35-year contract by the Alberta Electric System Operator (AESO) to design, build, own, and operate the Fort McMurray 500 kV Transmission project (Project), had $339 million of funds restricted under the terms of APL's non-recourse long-term debt financing agreement signed in October 2017 (see Note 19). The restricted project funds are released as the Project progresses (see Note 15), subject to satisfaction of certain performance conditions under the financing agreement.

Restricted project funds at December 31 are comprised of:

	2018	2017
Current assets		
Restricted cash (1)	**230**	351
Restricted funds invested in structured deposit note (2)	**–**	510
Restricted funds for construction lien holdbacks	**109**	–
	339	861
Non-current assets		
Restricted cash	**–**	69
Restricted funds for construction lien holdbacks	**–**	35
	–	104
	339	965

(1) At December 31, 2018, includes $100 million of funds contributed by APL partners as part of the equity contribution requirements, that are not available for general use by the Company (2017 - nil).

(2) The funds invested in a structured deposit note, which paid interest at a fixed rate of 1.707 per cent per annum, matured at the end of 2018.

11. LEASES

THE COMPANY AS LESSOR

The Company is party to certain arrangements that convey the right to use electricity generation and non-regulated electricity transmission assets. These arrangements are classified as finance leases, with the Company as the lessor. Certain assets under power purchase agreements (PPA) are classified as operating leases as the Company (as lessor) still retains substantially all the risks and rewards of ownership.

Finance leases

The total net investment in finance leases is shown below. Finance lease income is recognized in revenues.

	2018	2017
Net investment in finance leases		
Finance lease - gross investment	**683**	737
Unearned finance income	**(291)**	(329)
Unguaranteed residual value	**3**	2
	395	410
Current portion	**15**	15
Non-current portion	**380**	395
	395	410
Gross receivables from finance leases		
In one year or less	**52**	52
In more than one year, but not more than five years	**209**	238
In more than five years	**422**	447
	683	737
Net investment in finance leases		
In one year or less	**15**	15
In more than one year, but not more than five years	**87**	95
In more than five years	**293**	300
	395	410

During the year ended December 31, 2018, $21 million of contingent rent was recognized as income from these finance leases (2017 - $4 million).

Sale of electricity generation asset on transition to finance lease

In December 2017, ATCO Power signed a contract amendment that triggered a reassessment of the accounting treatment of the Muskeg River generating plant (Muskeg). Due to the nature of the contract amendment, IFRS requires that this agreement is accounted for as a finance lease. As this lease is considered a manufacturer's type lease for accounting purposes, $100 million and $75 million, respectively, was recorded in other revenues to recognize the fair value of the lease receivable and the derecognition of related customer contributions (see Note 5). The revenues were offset by $115 million of cost of sale of electricity generation asset representing the net book value of Muskeg property, plant and equipment. The transaction resulted in an after-tax gain of $44 million.

Operating leases

The aggregate future minimum lease payments receivable under non-cancellable operating leases are:

	2018	2017
Minimum lease payments receivable		
In one year or less	**86**	158
In more than one year, but not more than five years	**87**	320
In more than five years	**2**	2
	175	480

During the year ended December 31, 2018, no contingent rent was recognized as income from these operating leases (2017 - $10 million).

THE COMPANY AS LESSEE

Operating leases

The Company has entered into long-term operating leases for office premises and equipment. During the year ended December 31, 2018, $30 million was recognized as an expense for these operating leases (2017 - $28 million).

12. INVENTORIES

Inventories at December 31 are comprised of:

	2018	2017
Natural gas and fuel in storage	**13**	15
Raw materials and consumables	**18**	20
Work-in-progress	**–**	5
	31	40

For the year ended December 31, 2018, inventories recognized as an expense were $78 million (2017 - $80 million).

13. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Electricity Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2016	17,525	2,051	778	682	992	22,028
Additions	385	10	5	749	7	1,156
Transfers	678	1	40	(760)	41	–
Retirements and disposals	(127)	(5)	(39)	(53)	(37)	(261)
Transfer to finance lease (*Note 11*)	–	(187)	–	–	–	(187)
Changes to asset retirement costs	(5)	(1)	–	–	–	(6)
Foreign exchange rate adjustment	9	–	2	(9)	1	3
December 31, 2017	18,465	1,869	786	609	1,004	22,733
Additions	**67**	**13**	**12**	**956**	**28**	**1,076**
Transfers	**879**	**1**	**10**	**(915)**	**25**	–
Retirements and disposals (1)	**(72)**	**(35)**	**(105)**	**(1)**	**(16)**	**(229)**
Acquisition of EGO *(Note 29)*	–	**87**	–	–	**1**	**88**
Changes to asset retirement costs	–	**7**	–	–	–	**7**
Foreign exchange rate adjustment	**(24)**	**8**	–	**12**	–	**(4)**
December 31, 2018	**19,315**	**1,950**	**703**	**661**	**1,042**	**23,671**
Accumulated depreciation						
December 31, 2016	3,729	1,312	148	82	394	5,665
Depreciation	413	68	20	–	42	543
Retirements and disposals	(127)	(3)	(21)	–	(34)	(185)
Transfer to finance lease (*Note 11*)	–	(72)	–	–	–	(72)
Foreign exchange adjustment	1	–	–	(5)	–	(4)
December 31, 2017	4,016	1,305	147	77	402	5,947
Depreciation	**444**	**57**	**20**	–	**56**	**577**
Retirements and disposals	**(72)**	**(30)**	**(4)**	–	**(15)**	**(121)**
Foreign exchange rate adjustment	**(4)**	**6**	–	**7**	–	**9**
December 31, 2018	**4,384**	**1,338**	**163**	**84**	**443**	**6,412**
Net book value						
December 31, 2017	14,449	564	639	532	602	16,786
December 31, 2018	**14,931**	**612**	**540**	**577**	**599**	**17,259**

(1) Includes $101 million of cost of land sold in the United Kingdom, as part of sale of Barking Power assets (see below).

The additions to property, plant and equipment included $20 million of interest capitalized during construction for the year ended December 31, 2018 (2017 - $17 million).

Property, plant and equipment with a carrying value of $192 million were pledged as security for liabilities at December 31, 2018 (2017 - $198 million).

SALE OF BARKING POWER ASSETS

On December 14, 2018, Canadian Utilities Limited sold its 100 per cent ownership interests in Thames Power Services Limited (TPSL) and Barking Power Limited (BPL). BPL is an entity that holds land assets in the United Kingdom. As these entities had no significant ongoing operations, the sale was accounted for as a sale of assets, net of attributed liabilities (Barking Power assets), whereby land was the major asset disposed of.

The total proceeds received on sale of TPSL and BPL were $219 million. The Company recorded a gain on sale of Barking Power assets of $125 million. The reconciliation of gain on sale of Barking Power assets is shown below:

Sale of Barking Power assets proceeds	**219**
Cost of sale of Barking Power assets, net of liabilities [1]	**(90)**
Reversal of unused amounts of related asset retirement obligation *(Note 17)*	**16**
Loss on reclassification of the cumulative foreign currency translation adjustment	**(15)**
Costs of disposal	**(5)**
Gain on sale of Barking Power assets	**125**

(1) Includes $101 million of cost of land sold in the United Kingdom, as part of sale of Barking Power assets.

14. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2016	565	324	27	916
Additions	67	23	–	90
Retirements	(21)	(1)	–	(22)
December 31, 2017	611	346	27	984
Additions	**58**	**25**	–	**83**
Business combination (*Note 29*)	–	–	**34**	**34**
Retirements	**(3)**	–	–	**(3)**
December 31, 2018	**666**	**371**	**61**	**1,098**
Accumulated amortization				
December 31, 2016	345	39	6	390
Amortization	47	5	1	53
Retirements	(21)	(1)	–	(22)
December 31, 2017	371	43	7	421
Amortization	**43**	**5**	**2**	**50**
Retirements	**(3)**	–	–	**(3)**
December 31, 2018	**411**	**48**	**9**	**468**
Net book value				
December 31, 2017	240	303	20	563
December 31, 2018	**255**	**323**	**52**	**630**

15. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

In December 2014, Alberta PowerLine (APL), a partnership between the Company and Quanta Services Inc., was awarded a 35-year contract by the Alberta Electric System Operator (AESO) to design, build, own, and operate the Fort McMurray 500 kV Transmission project (Transmission Project).

The Transmission Project has been accounted for as a service concession arrangement as the AESO controls the output of the transmission facilities as a part of the greater Alberta network and the ownership of the transmission facilities will transfer to the AESO at the end of the service agreement. Under a service concession arrangement, the Company does not recognize the transmission facilities as property, plant and equipment, instead, a financial asset representing amounts due from the AESO has been recognized as a long-term receivable in the consolidated balance sheet. Revenues and costs relating to the design, planning and construction phases of the Transmission Project are recognized based on percentage of completion and revenues and costs relating to the operating phase will be recognized as the service is rendered.

Design and route planning activities are complete. Construction commenced in 2017 and the Transmission Project is anticipated to be in service in 2019. The receivable due from the AESO was $1,396 million at December 31, 2018 (2017 - $593 million). Payments will commence once the asset is in service. Contracted undiscounted cash flows from the Transmission Project are expected to be $4.1 billion.

In October 2017, APL issued non-recourse long-term debt to fund the Transmission Project activities (see Note 19).

Revenues, service concession arrangement costs and operating profit for the year ended December 31, 2018, are $803 million, $664 million and $139 million, respectively (2017 - $516 million, $456 million and $60 million).

16. SHORT-TERM DEBT

At December 31, 2018, the Company had $175 million of commercial paper outstanding at a weighted average effective interest rate of 2.25 per cent, maturing in January 2019 (December 31, 2017 - nil). The outstanding balance was fully repaid in January 2019.

The commercial paper is supported by the Company's long-term committed credit facilities.

17. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

Asset retirement obligations (AROs) represent the present value of the costs to be incurred to retire the Company's power generation plants, natural gas storage facilities and processing plants. The other provision relates mainly to restructuring costs and greenhouse gas payments.

The changes in AROs and other provisions are as follows:

	Asset Retirement Obligations	Other	Total
December 31, 2016	160	12	172
Additions	1	5	6
Utilized in the year	(5)	(8)	(13)
Accretion expense	2	–	2
Other	(6)	–	(6)
December 31, 2017	152	9	161
Additions	**8**	**54**	**62**
Utilized in the year	**(4)**	**(34)**	**(38)**
Reversal of unused amounts (1)	**(16)**	**(1)**	**(17)**
Accretion expense	**3**	**–**	**3**
Other	**3**	**–**	**3**
December 31, 2018	**146**	**28**	**174**
Less: current portion	**(8)**	**(24)**	**(32)**
Long-term portion	**138**	**4**	**142**

(1) Reversal of unused amounts includes $16 million related to the sale of Barking Power assets in December 2018 (see Note 13).

ASSET RETIREMENT OBLIGATIONS

The Company estimates that the undiscounted, inflated amount of cash flows required to settle the AROs is approximately $5.1 billion, which will be incurred between 2019 and 2261. The weighted average pre-tax, risk-free discount rate used to calculate the fair value of the AROs at December 31, 2018 was 2.72 per cent (2017 - 2.72 per cent).

18. LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	Effective Interest Rate	2018	2017
CU Inc. debentures - unsecured (1)	4.838% (2017 - 4.881%)	**7,990**	7,605
CU Inc. other long-term obligation, due June 2020 - unsecured (2)	3.95% (2017 - 3.20%)	**5**	3
Canadian Utilities Limited debentures - unsecured, 3.122% due November 2022	3.187%	**200**	200
ATCO Power Australia credit facility, payable in Australian dollars, at BBSY Rates, due February 2020, secured by a pledge of project assets and contracts, $69 million AUD (2017 - $74 million AUD) (3)	Floating (4)	**66**	73
ATCO Gas Australia Limited Partnership credit facility, payable in Australian dollars, at BBSY rates, due December 2019 (2017 - $250 million AUD)	Floating (4)	**–**	244
ATCO Gas Australia Limited Partnership revolving credit facility, payable in Australian dollars, at BBSY rates, due December 2019, (2017 - $427 million AUD)	Floating (4)	**–**	417
ATCO Gas Australia credit facility, payable in Australian dollars, at BBSY rates, due July 2021, $275 million AUD (3)	Floating (4)	**264**	–
ATCO Gas Australia revolving credit facility, payable in Australian dollars, at BBSY rates, due July 2023, $400 million AUD (3)	Floating (4)	**385**	–
Electricidad del Golfo credit facility, payable in Mexican pesos, at Mexican Interbank rates, due March 2023, 570 million MXP	Floating (4)	**39**	–
Less: deferred financing charges		**(45)**	(43)
		8,904	8,499
Less: amounts due within one year		**(485)**	(5)
		8,419	8,494

BBSY - Bank Bill Swap Benchmark Rate

(1) *Interest rate is the average effective interest rate weighted by principal amounts outstanding.*

(2) *During 2018, the expiry date of the CU Inc. other long-term obligation was extended from December 2019 to June 2020.*

(3) *During 2018, the above interest rates had additional margin fees at a weighted average rate of 1.11 per cent (2017 - 1.29 per cent). The margin fees are subject to escalation.*

(4) *Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 25).*

DEBENTURE ISSUANCES

During 2018, CU Inc. issued $385 million of 3.95 per cent debentures maturing on November 23, 2048 (2017 - $430 million of 3.548 per cent debentures maturing on November 22, 2047).

OTHER LONG TERM DEBT ISSUANCES AND REPAYMENTS

ATCO Gas Australia re-financing

In July 2018, as part of a re-financing, the Company's subsidiary, ATCO Gas Australia Limited Partnership, repaid in full the outstanding balance of its two credit facilities in the amount of $658 million ($677 million Australian dollars). ATCO Gas Australia then entered into a new syndicated loan facility, consisting of two tranches. The first tranche is a $275 million Australian dollars loan, maturing in July 2021, at the Australia bank bill swap benchmark rate (BBSY) plus an applicable margin. This tranche was fully drawn at December 31, 2018. The second tranche is a $450 million Australian dollars revolving credit facility, maturing in July 2023, at BBSY rates plus a margin. $385 million ($400 million Australian dollars) was borrowed under this tranche at December 31, 2018. The floating BBSY interest rates are hedged to December 31, 2019 with an interest rate swap agreement which fixes the interest rate at 2.392% (see Note 25).

Electricidad del Golfo credit facility

On February 20, 2018, the Company assumed $42 million of long-term debt on acquisition of Electricidad del Golfo (EGO) (see Note 29). On March 20, 2018, the Company issued additional long-term debt of $40 million under a fixed-term credit facility, at Mexican interbank rates maturing in March 2023, that was used to fund the retirement of EGO's long-term debt with its Mexican counterparty. To mitigate the variable interest rate risk, the Company entered into interest rate swap agreements to fix the interest rate at 8.77 per cent for the fixed-term facility (see Note 25).

The long-term debt assumed on acquisition of EGO was repaid on April 2, 2018.

PLEDGED ASSETS

The ATCO Power Australia credit facility is guaranteed by Canadian Utilities Limited and is secured by a mortgage on certain assets of the Karratha Power Plant and an assignment of certain contracts and agreements. The Karratha Power Plant is accounted for as a finance lease receivable.

The book value of assets pledged to maintain the Company's long-term credit facilities was $112 million at December 31, 2018 (2017 - $118 million).

19. NON-RECOURSE LONG-TERM DEBT

Non-recourse long-term debt outstanding at December 31 is comprised of project financing received by ATCO Power and Alberta PowerLine, and is as follows:

Project Financing	Effective Interest Rate	2018	2017
ATCO Power:			
Joffre notes, at fixed rate of 8.590%, due to 2020	8.950%	**9**	14
Scotford notes, at fixed rate of 7.930%, due to 2022	8.240%	**12**	15
Muskeg River notes, at fixed rate of 7.560%, due to 2022	7.840%	**9**	12
Cory:			
Notes, at fixed rate of 7.586%, due to 2025	7.870%	**20**	23
Notes, at fixed rate of 7.601%, due to 2026	7.890%	**19**	21
Alberta PowerLine:			
Series A Bonds, at fixed rate of 4.065%, due to 2053	4.277%	**549**	549
Series B Bonds, at fixed rate of 4.065%, due to 2054	4.274%	**548**	548
Series C Bonds, at fixed rate of 3.351%, due to 2032	3.690%	**144**	144
Series D Bonds, at fixed rate of 3.340%, due to 2032	3.679%	**144**	144
Less: deferred financing charges		**(53)**	(54)
		1,401	1,416
Less: amounts due within one year		**(20)**	(15)
		1,381	1,401

Alberta PowerLine

In October 2017, Alberta PowerLine issued long-term debt consisting of $1,385 million Senior Secured Nominal Amortizing Bonds. This long-term debt is non-recourse to the Company. The financing was issued by way of a private placement. The net proceeds of $1,332 million are used to fund the construction of the Fort McMurray 500 kV Transmission Project (see Note 15).

Immediately on completion of the financing, the net proceeds were transferred to an escrow account, and are released as the Transmission Project progresses, subject to satisfaction of certain performance conditions under the financing agreement. Of the net proceeds from the financing, at December 31, 2018, $239 million is included in restricted project funds (2017 - $965 million) (see Note 10).

Principal payments on the Bonds will commence in 2019 when the Transmission Project is operational, and will be made on a fixed amortization schedule until the Bonds' maturity dates. Interest on Series A and Series D Bonds is due semi-annually in arrears on June 1 and December 1, of each year, commencing on December 1, 2017. Interest on Series B and Series C Bonds is due semi-annually in arrears on March 1 and September 1, of each year, commencing on March 1, 2018.

Pledged assets

ATCO Power's non-recourse long-term debt is secured by charges on the projects' assets and by an assignment of the projects' bank accounts, outstanding contracts and agreements. The book value of the pledged assets at December 31, 2018, is $384 million (2017 - $374 million). The Cory and Muskeg projects are accounted for as finance lease receivables.

Alberta PowerLine's non-recourse long-term debt is secured by charges on the Transmission Project's assets and by an assignment of the Transmission Project's cash flow, bank accounts, outstanding contracts and agreements.

20. RETIREMENT BENEFITS

The Company maintains registered defined benefit and defined contribution pension plans for most of its employees. It also provides other post-employment benefits (OPEB), principally health, dental and life insurance, for retirees and their dependents. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees automatically participate in the defined contribution pension plan.

The Company also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

The majority of benefit payments are made from trustee-administered funds; however, there are a number of unfunded plans where the Company makes the benefit payments. Plan assets held in trusts are governed by provincial and federal legislation and regulations, as is the relationship between the Company and the trustee. The Pension Committee of the Board of Directors is responsible for governance of the funded plans and policy decisions related to benefit design, liability management, and funding and investment, including selection of investment managers and investment options for the plans.

BENEFIT PLAN ASSETS, OBLIGATIONS AND FUNDED STATUS

The changes in Company's pension and OPEB plan assets and obligations are as follows:

		2018		2017
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Market value of plan assets				
Beginning of year	2,693	–	2,595	–
Interest income	**93**	–	97	–
Employee contributions	**1**	–	1	–
Employer contributions	**20**	–	26	–
Benefit payments	**(116)**	–	(109)	–
Return on plan assets, excluding amounts included in interest income	**(102)**	–	83	–
End of year	**2,589**	–	2,693	–
Accrued benefit obligations				
Beginning of year	2,918	115	2,785	112
Current service cost	**23**	**2**	28	2
Interest cost	**102**	**4**	106	4
Employee contributions	**1**	–	1	–
Benefit payments from plan assets	**(116)**	–	(109)	–
Benefit payments by employer	**(6)**	**(3)**	(5)	(4)
Actuarial (gains) losses	**(91)**	**(4)**	112	1
End of year (1)	**2,831**	**114**	2,918	115
Funded status				
Net retirement benefit obligations	**242**	**114**	225	115

(1) The non-registered, non-funded defined benefit pension plans accrued benefit obligations decreased to $136 million at December 31, 2018 due to an increase in the liability discount rate and experience adjustments (2017 - increased to $140 million due to a decrease in the liability discount rate partially offset by experience adjustments).

BENEFIT PLAN COST

The components of benefit plan cost are as follows:

		2018		2017
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Current service cost	**23**	**2**	28	2
Interest cost	**102**	**4**	106	4
Interest income	**(93)**	–	(97)	–
Defined benefit plans cost	**32**	**6**	37	6
Defined contribution plans cost	**27**	–	29	–
Total cost	**59**	**6**	66	6
Less: capitalized	**27**	**3**	29	3
Net cost recognized	**32**	**3**	37	3

RE-MEASUREMENT OF RETIREMENT BENEFITS

Re-measurements of the pension and OPEB plans are as follows:

	2018		2017	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
(Losses) gains on plan assets from:				
Return on plan assets, excluding amounts included in net interest expense	**(102)**	–	83	–
Gains (losses) on plan obligations from:				
Changes in demographic assumptions	–	–	4	4
Changes in financial assumptions	**72**	**3**	(131)	(5)
Experience adjustments	**19**	**1**	15	–
	91	**4**	(112)	(1)
(Losses) gains recognized in other comprehensive income (1)	**(11)**	**4**	(29)	(1)

(1) Losses net of income taxes were $5 million for the year ended December 31, 2018 (2017 - $22 million loss).

PLAN ASSETS

The market values of the Company's defined benefit pension plan assets at December 31 are as follows:

	2018				2017			
Plan asset mix	**Quoted**	**Un-quoted**	**Total**	**%**	**Quoted**	**Un-quoted**	**Total**	**%**
Equity securities								
Public								
Canada	**130**	–	**130**		238	–	238	
United States	**191**	–	**191**		295	–	295	
International	**144**	–	**144**		208	–	208	
Private	–	**11**	**11**		–	11	11	
	465	**11**	**476**	**18**	741	11	752	28
Fixed income securities								
Government bonds	**1,056**	–	**1,056**		882	–	882	
Corporate bonds and debentures	**670**	–	**670**		638	–	638	
Securitizations	**40**	–	**40**		53	–	53	
Mortgages	–	**54**	**54**		–	46	46	
	1,766	**54**	**1,820**	**70**	1,573	46	1,619	60
Real estate								
Land and building (1)	–	**29**	**29**		–	43	43	
Real estate funds	–	**195**	**195**		–	193	193	
	–	**224**	**224**	**9**	–	236	236	9
Cash and other assets								
Cash	**11**	–	**11**		15	–	15	
Short-term notes and money market funds	**48**	–	**48**		57	–	57	
Accrued interest and dividends receivable	**10**	–	**10**		14	–	14	
	69	–	**69**	**3**	86	–	86	3
	2,300	**289**	**2,589**	**100**	2,400	293	2,693	100

(1) The land and building are occupied by the Company.

At December 31, 2018, plan assets include Class A shares of the Company having a market value of $5 million (2017 - $8 million) and Class I Non-Voting Shares of ATCO Ltd. having a market value of $6 million (2017 - $9 million).

These investments are held by a fund that is managed by an independent investment manager on an arms-length-basis.

FUNDING

In 2018, an actuarial valuation for funding purposes as of December 31, 2017 was completed for the registered defined benefit pension plans. The estimated contribution for 2019 is $20 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2020.

WEIGHTED AVERAGE ASSUMPTIONS

The significant assumptions used to determine the benefit plan cost and accrued benefit obligation are as follows:

		2018		2017
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**3.60%**	**3.60%**	3.90%	3.90%
Average compensation increase for the year	**2.50%**	**n/a**	1.50%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.80%**	**3.80%**	3.60%	3.60%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs [1]	**n/a**	**5.30%**	n/a	5.43%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

(1) The Company uses a graded drug cost trend rate which assumes a rate of 4.50 per cent in 2024.

The weighted average duration of the defined benefit obligation is 13.8 years.

RISKS

The Company is exposed to a number of risks related to its defined benefit pension plans and OPEB plans. The most significant risks are described below.

Investment risk

The Company makes investment decisions for its funded plans using an asset-liability matching framework. Within this framework, the Company's objective over time is to increase the proportion of plan assets in fixed income securities with maturities that match the expected benefit payments as they fall due. However, due to the long-term nature of the benefit obligations, the strength of the Company, and the belief that a diversified portfolio offers an appropriate risk-return profile, the Company continues to invest in equity securities, global fixed income and Canadian real estate in addition to Canadian fixed income. The Company has not changed the processes used to manage its risks from previous periods.

Interest rate risk

A decrease in long-term interest rates will increase accrued benefit obligations, which will be partially offset by an increase in the value of the plans' bond holdings. Other things remaining the same, a further decrease in long-term interest rates will cause the funded status to deteriorate, while increases in interest rates will result in gains.

Compensation risk

The present value of the accrued benefit obligations is calculated using the estimated future compensation of plan participants. Should future compensation be higher than estimated, benefit obligations will increase.

Inflation risk

Accrued benefit obligations are linked to inflation, and higher inflation will lead to increased obligations. For the defined benefit pension plans, inflation risk is mitigated because the indexing of benefit payments is capped at an annual increase of 3.0 per cent.

The majority of plan assets are also affected by inflation. As inflation rises, long-term interest rates will likely rise, pushing up bond yields and reducing the value of existing fixed rate bonds. The relationship between equities and inflation is not as clear, but generally speaking, high inflation has a negative impact on equity valuations. Overall, rising inflation will likely reduce a plan surplus or increase a deficit.

Life expectancy

Should pensioners live longer than assumed, benefit obligations and liabilities will be larger than expected.

SENSITIVITIES

The 2018 sensitivities of key assumptions used in measuring the Company's pension and OPEB plans are as follows:

		Accrued Benefit Obligation		Net Benefit Plan Cost	
Assumption	**Per cent Change**	**Increase in Assumption**	**Decrease in Assumption**	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	1%	(373)	464	4	(6)
Future compensation rate	1%	16	(15)	1	(1)
Long-term inflation rate [(1)]	1%	434	(357)	10	(8)
Health care cost trend rate	1%	11	(9)	–	–
Life expectancy	10%	75	(83)	2	(2)

(1) The long-term inflation rate for pension plans reflects the fact that pension plan benefit payments have historically been indexed annually to increases in the Canadian Consumer Price Index to a maximum increase of 3.0 per cent per annum.

The above sensitivities have been calculated independently of each other. Actual experience may result in changes in a number of assumptions simultaneously.

21. BALANCES FROM CONTRACTS WITH CUSTOMERS

Balances from contracts with customers are comprised of accounts receivable and contract assets and customer contributions:

ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

At December 31, 2018, accounts receivable and contract assets are as follows:

	2018	**2017 (restated)**
Trade accounts receivable and contract assets	**608**	590
Accounts receivable from parent company	**54**	19
Other accounts receivable	**14**	7
	676	616

The significant changes in trade accounts receivable and contract assets are as follows:

December 31, 2016	514
Revenue from satisfied performance obligations	3,010
Customer billings and other items not included in revenue	458
Credit loss allowance, net	(1)
Payments received	(3,393)
Foreign exchange rate adjustment	5
December 31, 2017, as previously reported	593
IFRS 9 re-measurement adjustments (*Note 3*)	(3)
January 1, 2018, restated	590
Revenue from satisfied performance obligations	**3,266**
Customer billings and other items not included in revenue	**333**
Business combinations	**2**
Payments received	**(3,586)**
Foreign exchange rate adjustment	**3**
December 31, 2018	**608**

CUSTOMER CONTRIBUTIONS

Certain additions to property, plant and equipment, mainly in the utilities, are made with the assistance of non-refundable cash contributions from customers. These contributions are made when the estimated revenue is less than the cost of providing service or where the customer needs special equipment. Since these contributions will provide customers with on-going access to the supply of natural gas or electricity, they represent deferred revenues and are recognized in revenues over the life of the related asset.

Changes in customer contributions balance are summarized below.

	Note	
December 31, 2016, as previously reported		1,687
IFRS 15 re-measurement adjustment	3	181
January 1, 2017, restated	3	1,868
Receipt of customer contributions		61
Derecognition on transition to finance lease, before IFRS 15 re-measurement adjustment	11	(16)
Amortization		(56)
IFRS 15 re-measurement adjustment	3	(49)
December 31, 2017, restated		1,808
December 31, 2017, as previously reported		1,676
IFRS 15 re-measurement adjustments	3	**132**
January 1, 2018, restated	3	**1,808**
Receipt of customer contributions		**90**
Derecognition on termination of Power Purchase Arrangement	4	**(35)**
Amortization		**(65)**
December 31, 2018		**1,798**

22. EQUITY PREFERRED SHARES

CANADIAN UTILITIES LIMITED EQUITY PREFERRED SHARES

Authorized and issued

Authorized: an unlimited number of Series Second Preferred Shares, issuable in series.

	2018		2017	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Cumulative Redeemable Second Preferred Shares				
3.403% Series Y [1]	**13,000,000**	**325**	13,000,000	325
4.90% Series AA	**6,000,000**	**150**	6,000,000	150
4.90% Series BB	**6,000,000**	**150**	6,000,000	150
4.50% Series CC	**7,000,000**	**175**	7,000,000	175
4.50% Series DD	**9,000,000**	**225**	9,000,000	225
5.25% Series EE	**5,000,000**	**125**	5,000,000	125
4.50% Series FF	**10,000,000**	**250**	10,000,000	250
Perpetual Cumulative Second Preferred Shares				
4.60% Series V [2]	**4,400,000**	**110**	4,400,000	110
Issuance costs		**(27)**		(27)
		1,483		1,483

(1) Effective June 1, 2017, the annual dividend rate for the Series Y Preferred Shares was reset from 4.00 per cent to 3.403 per cent for the next five years.

(2) On October 3, 2017, the annual dividend rate for the Series V Preferred Shares was reset from 4.00 per cent to 4.60 per cent for the next five years. The first payment at the new dividend rate was made on January 3, 2018.

Rights and privileges

Preferred shares	Redemption Amount [1]	Quarterly Dividend [2]	Reset Premium [3]	Date Redeemable/ Convertible	Convertible To
Cumulative Redeemable Second Preferred Shares					
Series Y	25.00	0.2126875	2.40%	June 1, 2022 [4]	Series Z [5]
Series AA	25.00	0.30625	Does not reset	September 1, 2017 [6]	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 [6]	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 [6]	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 [6]	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 [6]	Not convertible
Series FF	25.00	0.28125	3.69%	December 1, 2020 [4]	Series GG [5]
Perpetual Cumulative Second Preferred Shares					
Series V	25.00	0.2875	No premium	Currently redeemable	Not convertible

(1) Plus accrued and unpaid dividends.

(2) Cumulative, payable quarterly as and when declared by the Board.

(3) Dividend rate will reset on the date redeemable/convertible and every five years thereafter at a rate equal to the Government of Canada yield plus the reset premium noted.

(4) Redeemable by the Company or convertible by the holder on the date noted and every five years thereafter.

(5) If converted, holders will be entitled to receive quarterly floating rate dividends equal to the Government of Canada Treasury Bill yield plus the reset premium noted. Holders have the option to convert back to the original preferred shares series on subsequent redemption dates.

(6) Subject to a redemption premium of 4 per cent per share. The redemption premium declines by 1 per cent in each succeeding twelve month period from the redeemable date.

Dividends

Cash dividends declared and paid per share are as follows:

(dollars per share)	Year Ended December 31 2018	2017
Cumulative Redeemable Second Preferred Shares		
3.403% Series Y	**0.8508**	0.9254
4.90% Series AA	**1.2250**	1.2250
4.90% Series BB	**1.2250**	1.2250
4.50% Series CC	**1.1250**	1.1250
4.50% Series DD	**1.1250**	1.1250
5.25% Series EE	**1.3125**	1.3125
4.50% Series FF	**1.1250**	1.1250
Perpetual Cumulative Second Preferred Shares		
4.60% Series V	**1.1500**	1.0000

The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 10, 2019, the Company declared first quarter eligible dividends of $0.2126875 per Series Y Preferred Share, $0.30625 per Series AA and Series BB Preferred Share, $0.28125 per Series CC, Series DD, and Series FF Preferred Share and $0.328125 per Series EE Preferred Share.

23. CLASS A AND CLASS B SHARES

A reconciliation of the number and dollar amount of outstanding Class A and Class B shares at December 31, 2018 is shown below.

AUTHORIZED AND ISSUED

	Class A Non-Voting		Class B Common		Total	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2016	194,259,602	947	74,294,183	141	268,553,785	1,088
Shares issued	2,388,770	90	–	–	2,388,770	90
Stock options exercised	159,500	4	–	–	159,500	4
Converted: Class B to Class A	181,400	–	(181,400)	–	–	–
December 31, 2017	196,989,272	1,041	74,112,783	141	271,102,055	1,182
Shares issued	**2,000,420**	**63**	–	–	**2,000,420**	**63**
Stock options exercised	**39,000**	**1**	–	–	**39,000**	**1**
Converted: Class B to Class A	**337,803**	**1**	**(337,803)**	**(1)**	–	–
December 31, 2018	**199,366,495**	**1,106**	**73,774,980**	**140**	**273,141,475**	**1,246**

Class A and Class B shares have no par value.

MID-TERM INCENTIVE PLAN

The Company's MTIP trust is considered a special purpose entity which is consolidated in these financial statements. The Class A shares, while held in trust, are accounted for as a reduction of share capital. The consolidated Class A and Class B shares outstanding at December 31 is shown below.

	2018		2017	
	Shares	Amount	Shares	Amount
Shares issued and outstanding	**273,141,475**	**1,246**	271,102,055	1,182
Shares held in trust for the mid-term incentive plan	**(548,477)**	**(20)**	(548,456)	(20)
Shares outstanding, net of shares held in trust	**272,592,998**	**1,226**	270,553,599	1,162

DIVIDENDS

The Company declared and paid cash dividends of $1.5732 per Class A and Class B share during 2018 (2017 - $1.4300). The Company's policy is to pay dividends quarterly on its Class A and Class B shares. The payment and amount of any quarterly dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 10, 2019, the Company declared a first quarter dividend of $0.4227 per Class A and Class B share.

SHARE OWNER RIGHTS

Class A and Class B share owners are entitled to share equally, on a share for share basis, in all dividends the Company declares on either of such classes of shares as well as in the Company's remaining property on dissolution. Class B share owners are entitled to vote and to exchange at any time each share held for one Class A share.

If a take-over bid is made for the Class B shares and if it would result in the offeror owning more than 50 per cent of the outstanding Class B shares (excluding any Class B shares acquired upon conversion of Class A shares), the Class A share owners are entitled, for the duration of the take-over bid, to exchange their Class A shares for Class B shares and to tender the newly acquired Class B shares to the take-over bid. Such right of exchange and tender is conditional on completion of the applicable take-over bid.

In addition, Class A share owners are entitled to exchange their shares for Class B shares if ATCO Ltd., the Company's controlling share owner, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

DIVIDEND REINVESTMENT PROGRAM

The Company has a dividend reinvestment program (DRIP) for eligible Class A non-voting and Class B common share owners who are enrolled in the program. The DRIP allows eligible Class A non-voting and Class B common share owners of the Company to reinvest all or a specified portion of their dividends in additional Class A non-voting shares.

The Class A non-voting shares are issued from treasury at a two per cent discount to the volume weighted average price of the Class A non-voting shares traded on the Toronto Stock Exchange during the last five qualifying trading days preceding the dividend payment date.

During the year ended December 31, 2018, 2,000,420 Class A non-voting shares were issued under the DRIP (2017 - 2,388,770), using re-invested dividends of $63 million (2017 - $90 million). The shares issued by the Company were priced at an average of $31.37 per share (2017 - $37.67 per share).

Effective January 10, 2019, the Company suspended its dividend reinvestment program.

24. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities are summarized below.

		Year Ended December 31
	2018	**2017 (restated)**
Depreciation and amortization	**638**	598
Gain on sale of operation (*Note 30*)	**–**	(30)
Gain on sale of land (*Note 13*)	**(125)**	–
Earnings from investment in ATCO Structures & Logistics, net of dividends received	**–**	45
Dividends and distributions received from investment in joint ventures, net of earnings	**2**	–
Income taxes	**225**	173
Unrealized (gains) losses on mark-to-market forward commodity contracts	**(42)**	123
Contributions by customers for extensions to plant	**90**	61
Amortization of customer contributions	**(65)**	(105)
Derecognition of customer contributions on termination of Power Purchase Arrangement	**(35)**	–
Net finance costs	**469**	420
Income taxes paid	**(57)**	(65)
Other	**41**	20
	1,141	1,240

CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital are summarized below.

	2018	**2017**
Operating activities		
Accounts receivable and contract assets	**(86)**	(108)
Inventories	**7**	–
Prepaid expenses and other current assets	**(139)**	(15)
Accounts payable and accrued liabilities	**142**	151
Provisions and other current liabilities	**(33)**	39
	(109)	67
Investing activities		
Accounts receivable and contract assets	**–**	(1)
Inventories	**(3)**	(3)
Prepaid expenses	**1**	–
Accounts payable and accrued liabilities	**(67)**	8
	(69)	4

DEBT RECONCILIATION

The reconciliation of the changes in debt for the year ended December 31 is shown below.

	Short-term debt	Long-term debt	Non-recourse debt	Total
Liabilities from financing activities				
December 31, 2016	55	8,220	98	8,373
Net (repayment) issue of debt	(55)	275	1,371	1,591
Foreign currency translation	–	5	–	5
Debt issue costs	–	(3)	(54)	(57)
Amortization of deferred financing charges	–	2	1	3
December 31, 2017	–	8,499	1,416	9,915
Net issue (repayment) of debt	**175**	**376**	**(16)**	**535**
Foreign currency translation	–	**(11)**	–	**(11)**
Assumption of debt on business combination (*Note 29*)	–	**42**	–	**42**
Debt issue costs	–	**(6)**	–	**(6)**
Amortization of deferred financing charges	–	**4**	**1**	**5**
December 31, 2018	**175**	**8,904**	**1,401**	**10,480**

CASH POSITION

Cash position in the consolidated statement of cash flow at December 31 is comprised of:

	2018	2017
Cash	**545**	381
Short-term investments	–	1
Restricted cash [(1)]	**54**	43
Cash and cash equivalents	**599**	425
Bank indebtedness	–	(7)
	599	418

(1) Cash balances which are restricted under the terms of joint arrangement agreements are considered not available for general use by the Company.

25. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash and cash equivalents, accounts receivable and contract assets, restricted project funds, bank indebtedness, accounts payable and accrued liabilities and short-term debt	Assumed to approximate carrying value due to their short-term nature.
Finance lease receivables and receivable under service concession arrangement	Determined using a risk-adjusted, pre-tax interest rate to discount future cash receipts (Level 2).
Long-term debt and non-recourse long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
Measured at Fair Value	
Interest rate swaps	Determined using interest rate yield curves at period-end (Level 2).
Foreign currency contracts	Determined using quoted forward exchange rates at period-end (Level 2).
Commodity contracts	Determined using observable period-end forward curves, with inputs validated by publicly available market providers. The fair values were also determined using extrapolation formulas using readily observable inputs and implied volatility (Level 2).

FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

The fair values of the Company's financial instruments measured at amortized cost are as follows:

		December 31, 2018		December 31, 2017	
Recurring Measurements	Note	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Finance lease receivables	11	**395**	**487**	410	568
Receivable under service concession arrangement	15	**1,396**	**1,396**	593	593
Financial Liabilities					
Long-term debt	18	**8,904**	**9,547**	8,499	9,679
Non-recourse long-term debt	19	**1,401**	**1,474**	1,416	1,562

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At December 31, 2018, the following derivative instruments were outstanding:

- interest rate swaps for the purpose of limiting interest rate risk on the variable future cash flows of long-term debt and non-recourse long-term debt held in a joint venture,
- foreign currency forward contracts for the purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in U.S. dollars, Australian dollars, Mexican pesos and British pounds, and
- natural gas and forward power sale and purchase contracts for the purpose of limiting exposure to electricity and natural gas market price movements.

The balance sheet classification and fair values of the Company's derivative financial instruments are as follows:

	Subject to Hedge Accounting		Not Subject to Hedge Accounting		
Recurring Measurements	**Interest Rate Swaps**	**Commodities**	**Commodities**	**Foreign Currency Forward Contracts**	**Total Fair Value of Derivatives**
December 31, 2018					
Financial Assets					
Prepaid expenses and other current assets	**1**	**2**	–	–	**3**
Other assets	**1**	**2**	**4**	–	**7**
Financial Liabilities					
Other current liabilities (1)	–	**15**	**34**	**4**	**53**
Other liabilities (1)	**3**	**8**	**27**	–	**38**
December 31, 2017					
Financial Assets					
Prepaid expenses and other current assets	–	2	3	–	5
Other assets	–	3	1	–	4
Financial Liabilities					
Other current liabilities	4	14	32	–	50
Other liabilities	–	16	35	–	51

(1) At December 31, 2018, the Company paid a total of $18 million of cash collateral to third parties on commodity forward positions related to future periods (December 31, 2017 - $54 million). The contracts held with these third parties have an enforceable master netting arrangement, which allows the right to offset.

During the year ended December 31, 2018, losses before income taxes of $2 million were recognized in other comprehensive income (OCI) (2017 - losses of $41 million) and losses of $11 million were reclassified to the statement of earnings (2017 - gains of $2 million).

Hedge ineffectiveness of $1 million was recognized in the statement of earnings during 2018 (2017 - nil). Over the next 12 months, the Company estimates that losses before income taxes of $13 million will be reclassified from accumulated other comprehensive income (AOCI) to earnings.

Notional and maturity summary

The notional value and maturity dates of the Company's derivative instruments outstanding are as follows:

	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Notional value and maturity	**Interest Rate Swaps**	**Natural Gas (1)**	**Power (2)**	**Natural Gas (1)**	**Power (2)**	**Foreign Currency Forward Contracts**
December 31, 2018						
Purchases (3)	–	**12,545,000**		**58,518,200**	**3,254,650**	–
Sales (3)	–		**1,193,640**	**7,740,700**	**7,574,926**	–
Currency						
Canadian dollars	**2**	–	–	–	–	–
Australian dollars	**744**	–	–	–	–	–
Mexican pesos	**570**	–	–	–	–	**140**
British pounds	–	–	–	–	–	**74**
Maturity	**2019-2023**	**2019-2021**	**2019-2020**	**2019-2022**	**2019-2021**	**2019**
December 31, 2017						
Purchases (3)	–	19,237,000	–	85,926,700	7,326,745	–
Sales (3)	–	–	1,731,365	27,445,800	14,101,265	–
Currency						
Canadian dollars	3	–	–	–	–	–
Australian dollars	749	–	–	–	–	–
U.S. dollars	–	–	–	–	–	63
Maturity	2020	2018-2021	2018-2020	2018-2021	2018-2020	2018

(1) Notional amounts for the natural gas purchase contracts are the maximum volumes that can be purchased over the terms of the contracts.

(2) Notional amounts for the forward power sale and purchase contracts are the commodity volumes committed in the contracts.

(3) Volumes for natural gas and power derivatives are in GJ and MWh, respectively.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Netting arrangements and similar agreements provide counterparties the legal right to set-off liabilities against assets received. The following financial assets and financial liabilities are subject to offsetting at December 31:

	Effects of Offsetting on the Balance Sheet		
	Gross Amount	**Gross Amount Offset**	**Net Amount Recognized**
2018			
Financial Assets			
Derivative assets [(1)]	**8**	**–**	**8**
Accounts receivable and contract assets	**118**	**(76)**	**42**
Financial Liabilities			
Derivative liabilities [(1)]	**103**	**(18)**	**85**
2017			
Financial Assets			
Derivative assets [(1)]	8	–	8
Accounts receivable and contract assets	100	(65)	35
Financial Liabilities			
Derivative liabilities [(1)]	151	(54)	97

(1) The Company enters into derivative transactions based on master agreements in which there is a set-off provision under certain circumstances, such as default. The agreements do not meet the criteria for offsetting in the consolidated balance sheet since the Company does not presently have a legally enforceable right to set-off. This right is enforceable only if certain credit events occur in the future.

26. RISK MANAGEMENT

FINANCIAL RISKS

The Company is exposed to a variety of risks associated with the use of financial instruments: market risk, credit risk and liquidity risk. The Company may use various derivative financial instruments to manage its exposure in these areas. All such instruments are used to manage risk and are not for trading purposes.

The Company’s Board is responsible for understanding the principal risks of the Company’s business, achieving a proper balance between risks incurred and the potential return to share owners, and confirming there are controls in place to effectively monitor and manage those risks with a view to the long-term viability of the Company. The Board established the Audit & Risk Committee to review significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Company’s ability to achieve its strategic or operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

The source of risk exposure and how each is managed is outlined below.

MARKET RISK

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company’s interest-bearing assets and liabilities include cash and cash equivalents, bank indebtedness, short-term debt, long-term debt and non-recourse long-term debt. The interest rate risk faced by the Company is primarily due to its cash and cash equivalents and floating rate long-term debt.

Cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature. The Company is exposed to interest rate movements after these investments mature.

The Company's risk management policy is to hedge all material interest rate risk exposures related to long-term financings when the risk is incurred, unless commercial arrangements or mechanisms are in place to offset such interest rate risk. The Company has fixed interest rates, either directly or through interest rate swap agreements, on

100 per cent (2017 - 100 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited.

A 25 basis point increase or decrease in Australian interest rates would increase or decrease earnings by $1 million. This analysis has been determined based on the exposure to interest rates for financial instruments outstanding at December 31, 2018.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk from financial instruments denominated in currencies other than the functional currency of an operation and on its net investments in foreign subsidiaries. The majority of this currency risk arises from exposure to the U.S. dollar and Australian dollar. The Company offsets foreign exchange volatility in part by entering into foreign currency derivative contracts and by financing with foreign-denominated debt. The Company's risk management policy is to hedge all material transactions with foreign exchange risks arising from the sale or purchase of goods and services where revenue or the costs to be incurred are denominated in a currency other than the functional currency of the transacting company.

A 10 per cent increase or decrease in foreign exchange rates would each increase or decrease OCI by the following:

	OCI
U.S. dollar	3
Australian dollar	60

The sensitivity analysis is based on management’s assessment that an average 10 per cent increase or decrease in this currency relative to the Canadian dollar is a reasonable potential change over the next year. This analysis has been determined based on the exposure to foreign exchange for financial instruments outstanding at December 31, 2018.

The sensitivity analysis excludes translation risk associated with the translation of subsidiaries that have a different functional currency than the functional currency of the Company.

Energy commodity price risk

Energy commodity price risk is the risk that the fair value or future cash flows of natural gas and power sales and purchases will fluctuate due to changes in market prices. The Company’s electricity generation business is exposed to commodity price movements, particularly to the market price of electricity and natural gas.

Natural gas for contracted capacity is provided either under a long-term supply agreement or is the responsibility of the off-taker. Natural gas capacity not contracted is purchased on a daily basis at spot prices. The Company pays market prices for substitute energy when it is unable to supply energy from its contracted capacity.

The Company’s policy is to hedge and optimize the available merchant capacity related to electricity production and related natural gas consumption. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Hedge accounting is applied up to an allowable amount of forecasted merchant production to a maximum of a five year term.

The Company is also exposed to seasonal summer/winter natural gas price spreads in its natural gas storage business.

A 10 per cent increase or decrease in the forward price of natural gas or power in Alberta would each increase or decrease earnings and OCI by $1 million and $4 million, respectively. This analysis assumes that changes in the forward price of natural gas affect the mark-to-market adjustment of the natural gas purchase contracts derivative asset.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty's inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and cash equivalents, accounts receivable and contract assets, finance lease receivable, receivable under service concession arrangement and derivative instrument assets. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated balance sheet.

The Company manages its credit risk on cash and cash equivalents by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

Accounts receivable and contract assets and finance lease receivable credit risk is reduced by transacting with credit-worthy customers in accordance with the established credit approval policies, diversified customer base and through collateral arrangements such as letters of credit, corporate guarantees and cash deposits. The utilities are also able to recover an estimate for their credit loss allowances through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

Receivable under service concession arrangement credit risk arises from the possibility that the counterparty to the service concession arrangement fails to make payments according to its terms and conditions. This risk is minimized as the counterparty is the AESO, which is a large, credit-worthy counterparty.

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to its terms and conditions. This risk is mitigated by dealing with large, credit-worthy counterparties and continuous monitoring of the counterparty risk exposure. The Company has in certain instances entered into master netting agreements with its derivative counterparties, which provides a right to offset for certain exposures between the parties.

The Company does not have a concentration of credit risk with any counterparty, except for finance lease receivables and the long-term receivable under service concession arrangement, which by their nature are with a single counterparty.

Depending on the nature of accounts receivable and contract assets, the Company estimates credit losses based on the expected credit loss rates for respective credit ratings. At December 31, 2018, the summary of the expected credit loss rates for respective credit ratings is as follows:

	High (AA to AAA)	Medium (BBB to A)	Low (BB and below)
Expected credit loss rate	0%-0.03%	0.05%-0.26%	0.36%-1.05%

At December 31, 2018, the Company had less than $100 million of accounts receivable and contract assets classified as Low (BB and below).

Where the Company believes there is a high probability of a customer default, additional credit allowances are recorded.

At December 31, 2018, the expected credit loss allowance was less than $1 million (2017 - $1 million).

The aging analysis of trade receivables that are past due but not impaired at December 31 is as follows:

	2018	2017
Up to 30 days[1]	**536**	545
31 to 60 days	**52**	25
61 to 90 days	**6**	2
Over 90 days	**14**	11
	608	583

(1) This amount includes $54 million (2017 - $19 million) of accounts receivable due from related parties.

At December 31, 2018, the Company held $246 million in letters of credit for certain counterparty receivables (2017 - $217 million). The Company did not take possession of any collateral it holds as security in 2018 and 2017. The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 36).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital structure. The Company considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Cash flow from operations provides a substantial portion of the Company’s cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans are also used under available credit lines to provide flexibility in the timing and amounts of long-term financing.

Lines of credit

At December 31, the Company has the following lines of credit that enable it to obtain financing for general business purposes:

			2018			2017
	Total	Used	Available	Total	Used	Available
Long-term committed	**2,233**	**610**	**1,623**	2,240	468	1,772
Uncommitted	**553**	**340**	**213**	557	344	213
	2,786	**950**	**1,836**	2,797	812	1,985

Long-term committed credit facilities have maturities greater than one year. Uncommitted credit facilities have no set maturity and the lender can demand repayment at any time.

Lines of credit utilized at December 31 are comprised of:

	2018	2017
Current bank indebtedness	**–**	7
Short-term debt (*Note 16*)	**175**	–
Long-term debt	**385**	417
Letters of credit	**390**	388
	950	812

Commercial paper

The Company is authorized to issue $1.2 billion of commercial paper against its long-term committed credit facilities.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2018, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2019	2020	2021	2022	2023	2024 and thereafter
Accounts payable and accrued liabilities	845	–	–	–	–	–
Short-term debt	175	–	–	–	–	–
Long-term debt:						
Principal	485	166	424	325	524	7,025
Interest expense [(1)]	412	384	369	351	331	6,530
Non-recourse long-term debt:						
Principal	20	34	32	33	28	1,306
Interest expense	59	58	56	54	53	956
Derivatives [(2)]	65	34	6	–	–	–
	2,061	676	887	763	936	15,817

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2018. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2018.

27. CAPITAL DISCLOSURES

The Company’s objectives when managing capital are to:

1. Safeguard the Company’s ability to continue as a going concern so it can continue to provide returns to share owners and benefits for other stakeholders.
2. Maintain strong investment-grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.
3. Remain within the capital structure approved by the AUC for the utilities.

The Company considers both its regulated and non-regulated operations, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to share owners, issue or purchase Class A and Class B shares, issue or redeem preferred shares, and issue or repay short-term debt, long-term debt and non-recourse long-term debt. Financing decisions are based on assessments by management in line with the Company’s objectives, with a goal of managing the financial risk to the Company as a whole.

While the Alberta based utilities have as their objective to be capitalized according to the AUC-approved capital structure, the Company as a whole is not restricted in the same manner. The Company sets its capital structure relative to risk and to meet financial and operational objectives, while factoring in the decisions of the regulator.

The Company also manages capital to comply with the customary covenants on its long-term debt. A common financial covenant for the Company’s debentures and credit facilities is that total debt divided by total capitalization must be less than 75 per cent. The Company defines total debt as the sum of bank indebtedness, short-term debt, long-term debt and non-recourse long-term debt (including their respective current portions). It defines total capitalization as the sum of Class A and Class B shares, contributed surplus, retained earnings, AOCI, equity preferred shares, NCI and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

Debt capitalization does not have standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. Also, the definitions of total debt and total capitalization vary slightly in the Company’s debt-related agreements.

The Company's capitalization at December 31 is as follows:

	2018	2017 (restated)
Bank indebtedness	–	7
Short-term debt	**175**	–
Long-term debt	**8,904**	8,499
Non-recourse long-term debt	**1,401**	1,416
Total debt	**10,480**	9,922
Class A and Class B shares	**1,226**	1,162
Contributed surplus	**15**	12
Retained earnings	**3,675**	3,541
Accumulated other comprehensive loss	**(24)**	(45)
Equity preferred shares	**1,483**	1,483
Non-controlling interests	**187**	187
Total equity	**6,562**	6,340
Total capitalization	**17,042**	16,262
Debt capitalization	**61%**	61%

For the year ended December 31, 2018, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

28. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments, estimates and assumptions made by the Company are outlined below.

SIGNIFICANT ACCOUNTING JUDGMENTS

Revenue related items

The Company makes judgments with respect to: determining whether the promised goods and services are considered distinct performance obligations by considering the relationship of such promised goods and services; allocating the transaction price for each distinct performance obligation identified through stand-alone selling price; evaluating when a customer obtains control of the goods or services promised; and evaluating whether the Company acts as principal or agent on certain flow-through charges to customers.

Impairment of financial assets

The impairment loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. The Company makes judgments in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Joint arrangements

Judgment is required when assessing the classification of a joint arrangement as a joint operation or a joint venture. When making this assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements, and other facts and circumstances.

Service concession arrangements

Judgment is required when assessing whether contracts with government entities fall within the scope of IFRIC 12 *Service Concession Arrangements*. Judgment also needs to be exercised when determining the classification to be applied to the service concession asset, allocation of consideration between revenue generating activities, classification of costs incurred and the effective interest rate to be applied to the service concession asset.

Impairment of long-lived assets

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in the Company's overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. Measurement uncertainty is increased where the Company is not the operator of a facility. The Company continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

The Company makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depreciated and amortized.

Leases

The Company evaluates contract terms and conditions to determine whether they contain or are leases. Where a lease exists, the Company determines whether substantially all of the significant risks and rewards of ownership are transferred to the customer, in which case it is accounted for as a finance lease, or remain with the Company, in which case it is accounted for as an operating lease.

Income taxes

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable.

When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date, using a probability weighting of possible outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution of natural gas and electricity. The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is from the date of the last meter reading and uses historical consumption patterns. Management applies judgment to the measure and value of the estimated consumption.

Impairment of financial assets

The impairment loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. For details regarding significant assumptions and key inputs used to calculate impairment loss allowance, see Note 26.

Service concession arrangements

Contracts falling under IFRIC 12 require the use of estimates over the term of the arrangement, including estimates of the services performed to date as a proportion of the total services to be performed. Any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence.

Impairment of long-lived assets

The Company continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, the Company estimates the recoverable amount for the cash generating unit (CGU) to determine if an impairment loss is to be recognized. These estimates are based on assumptions, such as the price for which the assets in the CGU could be obtained or future cash flows that will be produced by the CGU, discounted at an appropriate rate. Subsequent changes to these estimates or assumptions could significantly impact the carrying value of the assets in the CGU.

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 20.

Income taxes

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using a probability weighting of possible outcomes.

29. BUSINESS COMBINATION

On February 20, 2018, the Company acquired a 100 per cent ownership interest in Electricidad del Golfo (EGO). EGO owns a long-term contracted, 35 megawatt hydroelectric power station based in Veracruz, Mexico. The acquisition, which increases the Company's presence in Mexico, is reported in the Electricity operating segment.

The aggregate consideration paid for EGO was $112 million, which is comprised of $70 million cash paid, net of cash acquired, and the assumption of EGO's long-term debt of $42 million. There is no contingent consideration with this acquisition.

The fair values of the identifiable assets acquired and liabilities assumed were as follows:

Cash and cash equivalents	**9**
Accounts receivable and contract assets	**2**
Prepaid expenses and other current assets	**2**
Property, plant & equipment	**88**
Intangible assets	**34**
Goodwill	**9**
Accounts payable and accrued liabilities	**(3)**
Deferred income tax liabilities	**(19)**
Deferred revenues	**(1)**
Long-term debt	**(42)**
Total identifiable net assets acquired	**79**

The fair value of the acquired accounts receivable approximated the carrying value due to their short-term nature. None of the accounts receivable acquired were impaired and the full contractual amount was collected.

From the date of acquisition, revenues of $14 million, and earnings of $3 million were included in the consolidated statement of earnings for the year ended December 31, 2018, as a result of the acquisition. Transaction costs of $2 million for incremental legal and advisory services fees were expensed during the year ended December 31, 2018 and included in other costs and expenses in the consolidated statement of earnings.

The Company's pro-forma consolidated revenues and earnings attributable to equity owners of the company for the year ended December 31, 2018, would have been $4,379 million and $634 million, respectively, if the acquisition had occurred on January 1, 2018. These pro-forma adjustments reflect adjustments for depreciation and amortization assuming the fair values attributed in the purchase price allocation occurred on January 1, 2018. These pro-forma results may not necessarily be indicative of actual results had the acquisition occurred on January 1, 2018.

30. SALE OF OPERATION

SALE OF ATCO REAL ESTATE HOLDINGS LTD.

On January 1, 2017, the Company sold its 100 per cent investment in ATCO Real Estate Holdings Ltd. (AREHL) to ATCO Ltd. for cash proceeds of $47 million, resulting in a gain of $30 million. The transaction occurred on a tax-deferred basis. The proceeds represent the fair value of AREHL, which was supported by independent appraisals. Commencing January 1, 2017, the Company no longer recognizes these assets in its financial position, results of operations and cash flows in the consolidated financial statements. These assets were previously reported in the Corporate & Other segment.

31. SUBSIDIARIES

Principal operating subsidiaries are listed below. Subsidiaries are wholly owned, unless otherwise indicated.

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
ATCO Power	Canada	Electricity generation and related infrastructure services
Alberta PowerLine [(1)]	Canada	Design, build, own, and operate transmission infrastructure
ATCO Energy Solutions	Canada	Develops, owns and operates non-regulated energy and water-related infrastructure
Electricidad del Golfo	Mexico	Electricity generation and related infrastructure services
ATCO Gas Australia	Australia	Natural gas distribution
ATCO Power Australia	Australia	Electricity generation
ATCO Energy	Canada	Electricity and natural gas retailer
CU Inc.	Canada	Holding company
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines	Canada	Natural gas transmission and related infrastructure development

(1) At December 31, 2018 and 2017, Canadian Utilities Limited has an ownership interest of 80.0 per cent.

32. INVESTMENT IN ATCO STRUCTURES & LOGISTICS

On December 31, 2017, the Company sold its 24.5 per cent ownership interest in ATCO Structures & Logistics to its parent company, ATCO Ltd., at fair market value, for cash proceeds of $140 million. This transaction resulted in no impact to the Company's earnings and occurred on a tax-deferred basis. The transaction allows the Company to redeploy capital as part of its financing plan for its large investment program in core regulated and long-term contracted energy infrastructure asset base.

Commencing December 31, 2017, the Company no longer recognizes its interest in ATCO Structures & Logistics in its financial position, results of operations and cash flows in the consolidated financial statements. The investment in ATCO Structures & Logistics was previously reported in the Corporate & Other segment.

IMPAIRMENT

In the fourth quarter of 2017, ATCO Structures & Logistics recognized a pre-tax impairment of $34 million relating to certain workforce housing assets in Canada and space rental assets in the U.S. ATCO Structures & Logistics determined these assets were impaired due to a reduction in utilization, sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients. The Company's 24.5 per cent share of the impairment decreased 2017 equity earnings by $7 million in the Corporate & Other segment.

33. JOINT ARRANGEMENTS

JOINT OPERATIONS

Significant joint operations, all of which are included in the Electricity segment, are listed below.

Significant Joint Operations	Operating Jurisdiction	Ownership %	Principal Activity
Sheerness Generating Plant	Canada	50.0	Electricity generation
Joffre Cogeneration Plant	Canada	40.0	Electricity generation
Cory Cogeneration Plant	Canada	50.0	Electricity generation
Muskeg River Cogeneration Plant	Canada	70.0	Electricity generation

JOINT VENTURES

The following joint ventures are considered the most significant; however, they are not individually material to the operations of the Company.

Significant Joint Ventures	Segment	Operating Jurisdiction	Ownership %	Principal Activity
Brighton Beach Plant	Electricity	Canada	50.0	Electricity generation
Osborne Cogeneration Plant	Electricity	Australia	50.0	Electricity generation
Strathcona Storage Limited Partnership	Pipelines & Liquids	Canada	60.0	Hydrocarbon storage

Aggregate information for the Company's interest in joint ventures is shown below.

	2018	2017
Earnings for the year	**24**	20
Other comprehensive loss	**(2)**	–
Comprehensive income for the year	**22**	20
Dividends received	**26**	20
Aggregate carrying amount of interests in joint ventures	**195**	196

Investment in joint ventures

In 2018, the Company contributed $6 million (2017 - $7 million) to the Strathcona Storage Limited Partnership, which completed construction of two salt caverns for hydrocarbon storage in 2018.

Commitments

The joint ventures have contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on the contractual undiscounted cash flows, was $103 million at December 31, 2018 (2017 - $126 million).

Restrictions

The Company requires approval from its joint venture partners before any dividends or distributions can be paid.

34. NON-CONTROLLING INTERESTS

Non-controlling interests at December 31 are comprised of CU Inc. Equity Preferred Shares.

Authorized and issued

Authorized: an unlimited number of Preferred Shares, issuable in series.

		2018		2017
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Cumulative Redeemable Preferred Shares				
4.60% Series 1	**4,600,000**	**115**	4,600,000	115
2.243% Series 4	**3,000,000**	**75**	3,000,000	75
Issuance costs		**(3)**		(3)
		187		187

Rights and privileges

Preferred shares	Redemption Amount (1)	Quarterly Dividend (2)	Reset Premium (3)	Date Redeemable/ Convertible	Convertible To
Cumulative Redeemable Preferred Shares					
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.1401875	1.36%	June 1, 2021 (4)	Series 5 (5)

(1) Plus accrued and unpaid dividends.

(2) Cumulative, payable quarterly as and when declared by the Board.

(3) Dividend rate will reset on the date redeemable/convertible and every five years thereafter at a rate equal to the Government of Canada yield plus the reset premium noted.

(4) Redeemable by the Company or convertible by the holder on the date noted and every five years thereafter.

(5) If converted, holders will be entitled to receive quarterly floating rate dividends equal to the Government of Canada Treasury Bill yield plus the reset premium noted. Holders have the option to convert back to the original preferred shares series on subsequent redemption dates.

35. SHARE-BASED COMPENSATION PLANS

PLAN FEATURES

Share based forms of compensation are granted at the discretion of the Corporate Governance – Nomination, Compensation and Succession Committee. Plan features are described below.

Form of compensation	Eligibility	Vesting Period	Term	Settlement
Stock options (1)	Officers and key employees	20% per year over 5 years	10 years	Class A non-voting shares (3)
Share appreciation rights (1)	Directors, officers and key employees	20% per year over 5 years	10 years	Cash
Mid-term incentive plan	Officers and key employees	2-3 years (2)	2-3 years	Class A non-voting shares (4)

(1) Exercise price is equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant.

(2) Based on achieving certain performance criteria.

(3) Issued from Treasury.

(4) Purchased on the secondary market.

STOCK OPTION PLAN

Information about the options outstanding and exercisable at December 31 is summarized below.

	2018		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options authorized for grant	**12,800,000**		12,800,000	
Options available for issuance	**5,146,900**		5,250,850	
Outstanding options, beginning of year	732,250	$34.66	781,850	$32.04
Granted	**128,250**	**34.12**	123,500	38.19
Exercised	**(39,000)**	**22.43**	(159,500)	24.16
Forfeited	**(24,300)**	**37.58**	(13,600)	39.06
Outstanding options, end of year	**797,200**	**$35.09**	732,250	$34.66
Options exercisable, end of year	**471,700**	**$34.10**	420,850	$32.09

Options			Outstanding		Exercisable
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$23.65 - $24.74	121,000	1.5	$23.99	121,000	$23.99
$27.05 - $29.97	6,750	5.9	29.21	4,750	28.89
$33.07 - $34.80	196,500	7.0	33.78	72,750	33.20
$35.64 - $39.45	390,000	6.3	38.07	224,550	38.49
$40.61 - $41.54	82,950	6.3	40.81	48,650	40.79
$23.65 - $41.54	797,200	5.8	$35.09	471,700	$34.10

Compensation expense related to stock options was less than $1 million in each of 2018 and 2017, with a corresponding increase to contributed surplus.

SHARE APPRECIATION RIGHTS

Information about the stock appreciation rights (SARs) outstanding and exercisable at December 31 is summarized below.

	2018		2017	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	729,450	$34.71	773,050	$32.15
Granted	**128,250**	**34.12**	123,500	38.19
Exercised	**(36,200)**	**22.30**	(153,500)	24.24
Forfeited	**(24,300)**	**37.58**	(13,600)	39.06
Outstanding SARs, end of year	**797,200**	**$35.09**	729,450	$34.71
SARs exercisable, end of year	**471,700**	**$34.10**	418,050	$32.15

SARs			Outstanding		Exercisable
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$23.65 - $24.74	121,000	1.5	$23.99	121,000	$23.99
$27.05 - $29.97	6,750	5.9	29.21	4,750	28.89
$33.07 - $34.80	196,500	7.0	33.78	72,750	33.20
$35.64 - $39.45	390,000	6.3	38.07	224,550	38.49
$40.61 - $41.54	82,950	6.3	40.81	48,650	40.79
$23.65 - $41.54	797,200	5.8	$35.09	471,700	$34.10

In 2018, compensation expense related to SARs was credit of $1 million (2017 - expense of $1 million). The total carrying value of liabilities arising from SARs at December 31, 2018 was less than $1 million (2017 - $2 million). The total intrinsic value of all vested SARs at December 31, 2018 was $1 million (2017 - $3 million).

STOCK OPTION AND SARS WEIGHTED AVERAGE ASSUMPTIONS

The Company uses the Black-Scholes option pricing model to estimate the weighted average fair value of the stock options and SARs granted. The following weighted average assumptions were used:

		2018		2017
	Options	SARs	Options	SARs
Class A share price	**$34.12**	**$34.12**	$38.19	$38.19
Risk-free interest rate	**1.96%**	**1.96%**	1.22%	1.21%
Share price volatility (1)	**9.91%**	**7.69%**	12.97%	10.08%
Estimated annual Class A share dividend	**4.61%**	**4.61%**	3.75%	3.75%
Expected holding period prior to exercise	**6.9 years**	**6.1 years**	6.9 years	6.1 years

(1) The share price volatility is based on historical data and reflects the assumption that historical volatility over a period similar to the life of the option or SAR is indicative of future trends, which may not necessarily be indicative of exercise patterns that may occur.

MID-TERM INCENTIVE PLAN

Information about the MTIPs outstanding at December 31 is summarized below.

		2018		2017
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	548,456	$38.26	480,464	$38.50
Granted	**212,800**	**34.17**	182,500	38.95
Vested	**(115,850)**	**38.34**	(14,493)	39.86
Forfeited	**(125,675)**	**38.51**	(148,742)	39.72
Change in unallocated shares (1)	**28,746**	**–**	48,727	–
Outstanding MTIPs, end of year	**548,477**	**$36.30**	548,456	$38.26

(1) Unallocated shares are Class A shares held by the trustee which have not been awarded to officers or key employees.

MTIPs			Outstanding
Range of Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value
$33.07 - $34.69	194,550	2.2	$34.14
$35.64 - $39.13	262,127	0.9	37.74
$40.82 - $41.54	8,500	1.5	41.50
Unallocated shares	83,300	–	–
$33.07 - $41.54	548,477	1.4	$36.30

Compensation expense related to MTIP grants was an expense of $5 million for 2018 with a corresponding increase to contributed surplus (2017 - credit of $6 million with a corresponding decrease to contributed surplus).

The Company, through a trustee, purchased 113,500 shares during 2018 to be distributed to employees on vesting of the awards (2017 - 81,800 shares).

36. CONTINGENCIES

Measurement inaccuracies occur from time to time on electricity and gas metering facilities. The measurement adjustments relating to the Canadian utilities are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The AUC may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate. The measurement adjustments relating to ATCO Gas Australia are reconciled by the market operator and settled between the parties. Recovery of the costs is via a predetermined allowance contained in the current Access Arrangement.

The Company is party to a number of other disputes and lawsuits in the normal course of business. The Company believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy. The legal obligations of ATCO Gas and ATCO Electric for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric, with no refund of the transfer proceeds to Direct Energy.

Centrica plc., Direct Energy's parent company, provided a $300 million guarantee, supported by a $235 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

37. COMMITMENTS

In addition to commitments disclosed elsewhere in the financial statements, the Company has entered into a number of operating leases, coal purchase contracts, operating and maintenance agreements and agreements to purchase capital assets. Approximate future undiscounted payments under these agreements are as follows:

	2019	**2020**	**2021**	**2022**	**2023**	**2024 and thereafter**
Operating leases	19	18	16	11	11	63
Purchase obligations:						
Coal purchase contracts	64	66	67	68	27	56
Operating and maintenance agreements	326	324	321	324	323	400
Construction activities related to Fort McMurray 500 kV Transmission project (*Note 15*)	118	–	–	–	–	–
Capital expenditures	93	4	2	–	–	–
Other	10	–	–	–	–	–
	630	412	406	403	361	519

38. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH PARENT AND AFFILIATE COMPANIES

Transaction	Recorded As	2018	2017
Natural gas and electricity sales	Revenues	**1**	2
Administrative expenses, rent expense and licensing fees	Other expenses	**19**	14
Capital projects and office services	Property, plant and equipment	**–**	2

ATCO Ltd. did not participate in the Company's DRIP in 2018 (2017 - the Company issued 862,822 Class A non-voting shares to ATCO Ltd. under the DRIP using re-invested dividends of $32 million. The shares were priced at an average of $37.62 per share).

At December 31, 2018, accounts receivable and contract assets due from related parties amounted to $54 million (2017 - $19 million) and accounts payable due to related parties amounted to $38 million (2017 - $36 million). Receivables and payables with related parties are generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

Sale of ATCO Real Estate Holdings Ltd.

On January 1, 2017, the Company sold its 100 per cent investment in ATCO Real Estate Holdings Ltd. (AREHL) to ATCO Ltd. for cash proceeds of $47 million, resulting in a gain of $30 million. The proceeds represent the fair value of AREHL, which is supported by independent appraisals (Note 30).

Sale of Investment in ATCO Structures and Logistics

On December 31, 2017, the Company sold its 24.5 per cent ownership interest in ATCO Structures & Logistics to ATCO Ltd., at fair market value, for cash proceeds of $140 million (Note 32).

OTHER

In transactions with the Company’s joint ventures, the Company recognized revenues of $1 million (2017 - $3 million) relating to management fees and other charges.

In transactions with the Company’s group pension plans, the Company paid occupancy costs of $8 million (2017 - $8 million) relating to property owned by the pension plans.

The Company received less than $1 million (2017 - $1 million) in retail electricity and natural gas services revenue and incurred $2 million (2017 - $1 million) in advertising, promotion and other expenses from entities related through common control.

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2018	2017
Salaries and short-term employee benefits	**9**	11
Retirement benefits	**2**	2
Share-based compensation	**2**	1
	13	14

Key management personnel comprise members of executive management and the Board, a total of 20 individuals (2017 - 20 individuals).

39. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Subsidiaries are consolidated from the date control is obtained until the date control ends. Control exists where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power over the investee to affect returns.

All intra-group balances and transactions are eliminated on consolidation.

Interests in subsidiaries owned by other parties are included in NCI. NCI in subsidiaries are identified separately from equity attributable to Class A and Class B owners of the Company. Earnings and each component of OCI are attributed to the Class A and Class B owners of the Company and to NCI, even if this results in the NCI having a deficit balance. Earnings attributable to the Class A and Class B owners are determined after adjusting for dividends on equity preferred shares held by NCI.

Changes in the Company's ownership interests that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interest and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Class A and Class B owners of the Company.

JOINT ARRANGEMENTS

A joint arrangement can be classified as either a joint operation or joint venture and represents the contractually agreed sharing of control by two or more parties. A joint operation is an arrangement in which the Company has the rights and obligations to the corresponding assets and liabilities of the arrangement, whereas a joint venture is an arrangement in which the Company has the rights to the net assets of the arrangement.

Joint operations are proportionately consolidated by including the Company's share of assets, liabilities, revenues, expenses and OCI in the respective consolidated accounts.

Joint ventures are equity accounted. Under this method, the Company's interests in joint ventures are initially recognized at cost. The interests are subsequently adjusted to recognize the Company's share of post-acquisition profits or losses, movements in OCI and dividends or distributions received.

The Company's interests in joint ventures are tested for recoverability when events or circumstances indicate a possible impairment. An impairment loss is recognized in earnings when the carrying value of the Company's interest in an individual joint venture is higher than its recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. An impairment loss may be reversed if there is objective evidence that a change in the estimated recoverable amount of the investment is warranted.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred.

SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls:

(i) the services provided by the Company; and

(ii) a significant residual interest in the infrastructure.

Service concession arrangements are classified as either a financial asset or an intangible asset, or both. A financial asset is recognized when the Company has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable upon initial recognition. When the Company delivers more than one category of activity in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable. The Company recognizes an intangible asset when it has a right to charge for usage of the public infrastructure. The intangible asset is measured at fair value upon initial recognition. Subsequent to initial recognition, both the financial and intangible asset are measured at cost less accumulated amortization and impairment losses, if any.

REVENUE RECOGNITION

Revenue is allocated to the respective performance obligations based on relative transaction prices, and is recognized as goods and services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred or services delivered. The amount of revenue recognized reflects the time value of money where a significant financing component has been identified.

Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change.

Where the amount of goods and services delivered to the customer corresponds directly to the amount invoiced, the Company recognizes revenue equal to what it has the right to invoice.

Where the Company arranges for another party to provide a specified good or service (that is, it does not control the specified good or service provided by another party before that good or service is transferred to the customer), only revenues net of payments to the other party for the goods or services provided are recognized.

Non-cash considerations received from the Company's customers are included in the amount of revenue recognized and measured at fair value.

Costs incurred directly to obtain or fulfill a contract are capitalized and amortized to expense over the life of the contract.

Electricity generation and delivery

Revenue from independent power plant (IPP) contracts providing generation capacity to customers is recognized over the contract term and is measured based on fixed or variable capacity payments. Revenue from operating and maintaining the plant is recognized as the Company incurs costs to service the plant.

Electricity and natural gas transmission

Revenue from electricity and natural gas transmission services is recognized when service is provided to customers and is measured in proportion to the amount it has the right to invoice under the contract.

Customer contributions for extensions to plant are recognized as revenue over the life of the related asset.

Electricity and natural gas distribution

Revenue from distribution of electricity and natural gas is recognized when the services are provided to the customer based on metered consumption, which is adjusted periodically to reflect differences between estimated and actual consumption. Distribution of regulated and non-regulated electricity and natural gas is based on tariff-approved rates established by the Alberta Electric Systems Operator and Natural Gas Exchange and rates stipulated in the contracts, respectively. The Company recognizes revenue in an amount that corresponds directly with the services delivered and the amount invoiced.

Customer contributions for extensions to plant are recognized as revenue over the life of the related asset.

Gas storage and transportation

Revenue from hydrocarbon storage and transportation is recognized as the service is rendered to customers based on the length of the required service and contracted schedule of injections and withdrawals from the storage facilities.

Lease revenue

Power purchase agreements (PPA) for the generation of electricity are accounted for as operating leases, finance leases or executory contracts, depending on the terms of the PPAs.

Operating lease PPAs are subject to incentives and penalties relating to the generating unit's availability. Incentives are paid to the Company by the PPA counterparties for availability in excess of predetermined targets, whereas penalties are paid by the Company to the PPA counterparties when the availability targets are not achieved. The Company recognizes operating lease income on a declining rate base method, in accordance with the lease contract. Accumulated incentives in excess of accumulated penalties are deferred and operating lease income is recognized over the remaining term of the PPA. Conversely, any shortfall is expensed in the year the shortfall occurs.

Certain PPAs are classified as finance leases. Finance lease income is included in revenues. Non-lease components of the PPAs are accounted for based on the applicable performance obligations.

Service concession arrangement

Revenue on design and construction of the Fort McMurray 500 kV Transmission project (Project) is recognized based on the stage of completion of the related services. Revenue on operating and maintenance of the Project are recognized as related costs are incurred using the applicable markup.

Franchise fees

Municipal governments charge franchise fees to the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fees do not represent a separate performance obligation to a customer and are recovered through utility transmission and distribution prices. The recovery is part of the provision of continuous electricity and natural gas transmission and distribution service performance obligation. Franchise fees invoiced to customers are recognized as revenues.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

Termination benefits are recognized as an expense in salaries, wages and benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring that includes the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

INCOME TAXES

Income taxes are the sum of current and deferred taxes. Income tax is recognized in earnings, except to the extent it relates to items recorded in OCI or in equity.

Current tax is calculated on taxable earnings using rates enacted or substantively enacted at the balance sheet date in the jurisdictions in which the Company operates.

The liability method is used to determine deferred income tax on temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax is calculated using the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. If expected tax rates change, deferred income taxes are adjusted to the new rates.

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. The tax effect of temporary differences from investments in subsidiaries and joint arrangements are not accounted for where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

Current income tax assets and liabilities are offset where the Company has the legally enforceable right to offset and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset where the Company has a legally enforceable right to set off tax assets and liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank, bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short-term investments with maturities generally of 90 days or less at purchase.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. The cost of inventories that are interchangeable is assigned using the weighted average cost method. For inventories that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

The cost of inventories is comprised of all purchase, conversion and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services. Conversion costs include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the purchase or construction of the asset, such as materials, labour, borrowing costs incurred during construction, contracted services and asset retirement costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably.

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period to the next major overhaul, which varies from three to eight years. The cost of repair and maintenance activities performed every two years or less which do not enhance or extend the useful life of the asset are expensed when incurred.

Borrowing costs attributable to a construction period of substantial duration are added to the cost of the asset. The effective interest method is used to calculate capitalized interest using specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization starts when borrowing costs and expenditures are incurred at the onset of construction and ends when construction is substantially complete.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Assets are depreciated mainly on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress.

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

Depreciation periods for the principal categories of property, plant and equipment are shown in the table below.

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	2 to 65 years	50 years	2.0%
Electricity distribution equipment	10 to 103 years	37 years	2.7%
Gas transmission equipment	3 to 80 years	41 years	2.4%
Gas distribution plant and equipment	3 to 120 years	40 years	2.5%
Power generation plant and equipment:			
Gas-fired	3 to 40 years	22 years	4.5%
Coal-fired	5 to 47 years	41 years	2.5%
Hydroelectric	45 years	45 years	2.2%
Buildings	10 to 55 years	38 years	2.6%
Other plant, equipment and machinery	1 to 74 years	18 years	5.4%

Depreciation methods and the estimated residual values and useful lives of assets are reviewed on an annual basis. Any changes in these accounting estimates are recorded prospectively.

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 60 and 100 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Amortization methods and useful lives of assets are reviewed annually. Any changes in these accounting estimates are recorded prospectively.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

LEASES

A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts due from lessees under finance leases are recorded as finance lease receivables. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

Assets subject to operating leases are included in property, plant and equipment and are depreciated. Income from operating leases is recognized in earnings on a straight-line basis over the lease term.

When the Company has purchased goods or services as a lessee, and the lease is an operating lease, rental payments are expensed on a straight-line basis over the life of the lease.

For both finance and operating leases, contingent rents are recognized in earnings in the period in which they are incurred. Contingent rent is that portion of lease payments that is not fixed in amount but varies based on a future factor, such as the amount of use or production.

PROVISIONS

The Company recognizes provisions when:

(i) there is a current legal or constructive obligation as a result of a past event;

(ii) a probable outflow of economic benefits will be required to settle the obligation; and

(iii) a reliable estimate of the obligation can be made.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in interest expense.

CONTINGENCIES

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Neither contingent liabilities nor assets are recognized in the consolidated financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

ASSET RETIREMENT OBLIGATIONS

AROs are legal and constructive obligations connected with the retirement of tangible long-lived assets. These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for AROs are adjusted to take risks and uncertainties into account and are discounted using a pre-tax, risk-free discount rate.

Initially, an ARO is recorded in provisions, with a corresponding increase to property, plant and equipment. Subsequently, the carrying amount of the provision is accreted over the estimated time period until the obligation is to be settled; the accretion expense is recognized as interest expense. The asset is depreciated over its estimated useful life. Revaluations of the ARO at each reporting period take into account changes in estimated future cash flows and the discount rate.

FINANCIAL INSTRUMENTS

The Company classifies financial assets when they are first recognized as amortized cost or fair value through profit or loss. Classification is determined based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured at amortized cost if the financial asset is:

(i) held for the purpose of collecting contractual cash flows, and

(ii) the contractual cash flows of the financial asset solely represent payments of principle and interest.

All other financial assets are classified as fair value through profit or loss.

Financial liabilities are classified as amortized cost or fair value through profit or loss.

Amortized cost

Financial instruments classified as amortized cost are initially measured at fair value and subsequently measured at their amortized cost using the effective interest method.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recognized in earnings.

Transaction costs

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt are amortized over the life of the respective financial liability using the effective interest method. The Company's long-term debt, non-recourse long-term debt and equity preferred shares are presented net of their respective transaction costs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet:

(i) if there is a legally enforceable right to offset the recognized amounts, and

(ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized:

(i) when the right to receive cash flows from the financial assets has expired or been transferred, and

(ii) the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

Fair value hierarchy

The Company uses quoted market prices when available to estimate fair value. Models incorporating observable market data, along with transaction specific factors, are also used to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Company and recognizing the disposal of an asset on the day it is delivered by the Company. Any gain or loss on disposal is also recognized on that day.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, the Company assesses whether there is evidence that a financial asset or group of financial assets is impaired. If such evidence exists, an impairment loss is recognized in earnings.

Impairment losses on financial assets carried at amortized cost are calculated as the difference between the amortized cost and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses on financial assets carried at amortized cost may be reversed in whole or in part if there is evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods.

From January 1, 2018, the Company applies the expected credit loss allowance matrix based on historical credit loss experience, aging of financial assets, default probabilities, forward-looking information specific to the counterparty, and industry-specific economic outlooks.

For accounts receivable and contract assets and finance lease receivables, the Company estimates credit loss allowances at initial recognition and throughout the life of the receivable. For receivable under service concession arrangement, the Company estimates credit loss allowances from possible default events within the twelve months after the balance sheet date.

DERIVATIVE FINANCIAL INSTRUMENTS

Contracts settled net in cash or in another financial asset are classified as derivatives, unless they meet the Company's own use requirements.

All derivative financial instruments are measured at fair value. The gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

Where the Company elects to apply hedge accounting, the Company documents the relationship between the derivative and the hedged item at inception of the hedge, based on the Company's risk management policies. A qualitative assessment of the effectiveness of the hedging relationship is performed at each reporting period if both the critical terms of the hedging relationship and the economic relationship between the hedged item and hedging instrument continue to remain the same or similar. If the mismatch in terms is significant, a quantitative assessment may be required. Ineffectiveness, if any, is measured at the end of each reporting period.

If the risk management hedge ratio used to form the economic relationship of the hedged item and hedging instrument changes, rebalancing of the hedging relationship is required. Under this circumstance, an adjustment to the quantities of the hedged item or hedging instrument would be allowed to realign the hedging relationship in accordance with the appropriate risk management hedge ratio. The Company can only discontinue hedge accounting prospectively if there is no longer an economic relationship between the hedged item and hedging instrument, the risk management objective changes, the derivative no longer is designated as a hedging instrument, or the underlying hedged item is derecognized.

Cash flow hedges

The Company enters into interest rate swaps, foreign currency forward contracts and natural gas and forward power purchase and sale contracts to offset the risk of volatility in the variable cash flows arising from a recognized asset or liability, a highly probable forecast transaction or a firm commitment in a foreign currency transaction. The effective portion of changes in fair value of the derivative is recognized in OCI, whereas the ineffective portion is recognized in earnings immediately. Sources of hedge ineffectiveness can occur as a result of credit risk, change in hedge ratio, changes in the timing of payment, and forecast adjustments leading to over-hedging. The cumulative gain or loss in AOCI is transferred to earnings when the hedged item affects earnings. If a forecast transaction results in the recognition of a non-financial asset or liability, the amount in AOCI is added to the initial cost of the non-financial asset or liability.

If the Company discontinues hedge accounting, the cumulative gain or loss in AOCI is transferred to earnings at the same time as the hedged item affects earnings.

The amount in AOCI is immediately transferred to earnings if the hedged item is derecognized or it is probable that a forecast transaction will not occur in the originally specified time frame.

RETIREMENT BENEFITS

The Company accrues for its obligations under defined benefit pension and OPEB plans.

Pension plan assets at the balance sheet date are reported at fair value. Accrued benefit obligations at the balance sheet date are determined using a discount rate that reflects market interest rates. The rates are equivalent to those on high quality corporate bonds that match the timing and amount of expected benefit payments.

The cost for defined benefit plans includes net interest expense. This expense is calculated by applying the discount rate to the net defined benefit asset or liability at the beginning of the year plus projected contributions and benefit payments during the year.

Gains and losses resulting from experience adjustments and changes in assumptions used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

Employer contributions to the defined contribution pension plans are expensed as employees render service.

For defined benefit pension plans and OPEB plans, service cost is recognized as an expense in salaries, wages and benefits, and net interest expense is recognized in interest expense. The cost of defined contribution pension plans is recognized as an expense in salaries, wages and benefits. Past service costs are recognized immediately in earnings in the period of a plan amendment or curtailment. The change in the present value of the defined benefit pension plans resulting from a curtailment is accounted for as a past service cost. When retirement benefit costs for employee services are incurred in constructing an asset and meet asset recognition criteria, they are included in the related property, plant and equipment or intangible asset.

SHARE-BASED COMPENSATION PLANS

The Company expenses stock options. The Company determines the fair value of the options on the date of grant. The fair value is recognized over the vesting period of the options granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of the options is recorded in salaries, wages and benefits expense and contributed surplus. Contributed surplus is reduced as the options are exercised, and the amount initially recorded in contributed surplus is credited to Class A and Class B share capital.

SARs are cash-settled and are measured at fair value. The fair value is recognized over the vesting period of the SARs granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of SARs is recorded in salaries, wages and benefits expense and accounts payable and accrued liabilities and other non-current liabilities. The liabilities are re-measured at each reporting period.

The MTIP awards are equity-settled with shares purchased on the secondary market. They are measured at fair value based on the purchase price of the Company's Class A non-voting shares at the date of grant. The awards are held by a trust until the shares are vested, at which time they are transferred to the employee. The fair value of the MTIP awards is recognized in salaries, wages and benefits expense over the vesting period, with a corresponding charge to contributed surplus.

RELATED PARTY TRANSACTIONS

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers of assets or business combinations between entities under common control are measured at the carrying amount.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities and non-monetary assets and liabilities measured at fair value denominated in a foreign currency are adjusted to reflect the exchange rate at the balance sheet date. Gains or losses on translation of these monetary and non-monetary items are recognized in earnings. Non-monetary items not measured at fair value are not retranslated after they are first recognized.

Foreign operations

The assets and liabilities of subsidiaries whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the exchange rate at the balance sheet date. Revenues and expenses are translated at the average monthly exchange rates during the period, which approximates the foreign exchange rates on the dates of the transactions. Gains or losses on translation are included in other comprehensive income.

If the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the accumulated foreign currency translation gains or losses related to the foreign operation are recognized in earnings.

The exchange rates for the major currencies used in the preparation of the consolidated financial statements were as follows:

	Exchange Rates as at December 31		Average Exchange Rates for Year Ended December 31	
	2018	**2017**	**2018**	**2017**
U.S. dollar	**1.3644**	1.2520	**1.2957**	1.2980
Australian dollar	**0.9613**	0.9783	**0.9687**	0.9947

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. The following outlines the new accounting pronouncement that is applicable to, or may have a future material effect on, the Company.

Standard	Description	Effective Date
IFRS 16 *Leases*	This standard replaced IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance, however, the new standard may change the accounting treatment of certain components of lessor contracts and sub-leasing arrangements. The Company is in the process of finalizing its calculations using the modified retrospective approach effective January 1, 2019, without restatement of comparative information. The Company has elected to use certain practical expedients: • Leases of low-value assets and short-term leases that have a lease term of twelve months or less will not be recognized in the consolidated balance sheet on January 1, 2019. Payments on these leases will continue to be recognized as a lease expense generally on a straight-line basis over the lease term; and • Right-of-use assets will be measured with an equivalent value recorded for the related lease liabilities. The adoption of the new standard is expected to result in the recognition of a right-of-use asset and lease liability of approximately $70 million at January 1, 2019. The estimated impact may change as a result of additional updates on contractual terms, assumptions, and other circumstances arising after the date of these consolidated financial statements.	Effective for annual periods on or after January 1, 2019.