



**CU**

**INC.**

An **ATCO** Company

**CU INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

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**FOR THE YEAR ENDED DECEMBER 31, 2019**

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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 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 Committee. The Audit Committee is comprised entirely of independent Directors. The Audit 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 Owner appears on the following page. PricewaterhouseCoopers LLP have full and independent access to the Audit Committee and management to discuss their audit and related matters.

[Original signed by S.W. Kiefer]

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President & Chief Executive Officer

[Original signed by D.A. DeChamplain]

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Executive Vice President & Chief Financial Officer

# INDEPENDENT AUDITOR'S REPORT

To the Share Owner of CU Inc.

## OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of CU Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### ***What we have audited***

The Company's consolidated financial statements comprise:

- the consolidated statements of earnings for the years ended December 31, 2019 and December 31, 2018;
- the consolidated statements of comprehensive income for the years ended December 31, 2019 and December 31, 2018;
- the consolidated balance sheets as at December 31, 2019 and December 31, 2018;
- the consolidated statements of changes in equity for the years ended December 31, 2019 and December 31, 2018;
- the consolidated statements of cash flows for the years ended December 31, 2019 and December 31, 2018; 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* section 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.

Our opinion on the consolidated financial statements does not cover the other information and we do not express 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, 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.

## **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 26, 2020

# CONSOLIDATED STATEMENTS OF EARNINGS

| <i>(millions of Canadian Dollars)</i>  | Note     | Year Ended<br>December 31 |         |
|--|----------|---------------------------|---------|
|  |          | 2019                      | 2018    |
| <b>Revenues</b>                        | 5        | <b>2,787</b>              | 2,507   |
| <b>Costs and expenses</b>              |          |                           |         |
| Salaries, wages and benefits           |          | <b>(199)</b>              | (241)   |
| Energy transmission and transportation |          | <b>(197)</b>              | (178)   |
| Plant and equipment maintenance        |          | <b>(184)</b>              | (147)   |
| Fuel costs                             |          | <b>(13)</b>               | (15)    |
| Purchased power                        |          | <b>(82)</b>               | (80)    |
| Depreciation and amortization          | 10,11,16 | <b>(496)</b>              | (512)   |
| Franchise fees                         |          | <b>(239)</b>              | (208)   |
| Property and other taxes               |          | <b>(63)</b>               | (69)    |
| Other                                  | 6        | <b>(253)</b>              | (237)   |
|  |          | <b>(1,726)</b>            | (1,687) |
| <b>Operating profit</b>                |          | <b>1,061</b>              | 820     |
| Interest income                        |          | <b>26</b>                 | 15      |
| Interest expense                       | 7        | <b>(370)</b>              | (362)   |
| <b>Net finance costs</b>               |          | <b>(344)</b>              | (347)   |
| <b>Earnings before income taxes</b>    |          | <b>717</b>                | 473     |
| <b>Income tax recovery (expense)</b>   | 8        | <b>29</b>                 | (128)   |
| <b>Earnings for the year</b>           |          | <b>746</b>                | 345     |

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| <i>(millions of Canadian Dollars)</i>                         | Year Ended<br>December 31 |      |
|---|---------------------------|------|
|   | 2019                      | 2018 |
| <b>Earnings for the year</b>                                  | <b>746</b>                | 345  |
| <b>Other comprehensive (loss) income, net of income taxes</b> |                           |      |
| Items that will not be reclassified to earnings:              |                           |      |
| Re-measurement of retirement benefits <sup>(1)</sup>          | 14                        | (9)  |
| <b>Comprehensive income for the year</b>                      | <b>737</b>                | 349  |

(1) Net of income taxes of \$2 million for the year ended December 31, 2019 (2018 - \$(1) million).

See accompanying Notes to Consolidated Financial Statements.



# CONSOLIDATED BALANCE SHEETS

|   |       | December 31   |        |
|---|-------|---------------|--------|
| <i>(millions of Canadian Dollars)</i>                   | Note  | 2019          | 2018   |
| <b>ASSETS</b>   |       |               |        |
| <b>Current assets</b>                                   |       |               |        |
| Cash  |       | 1             | 21     |
| Short-term advances to parent company                   | 27    | 70            | –      |
| Accounts receivable and contract assets                 | 15    | 356           | 366    |
| Accounts receivable from parent and affiliate companies | 15,27 | 14            | 39     |
| Long-term advances to affiliate company                 | 27    | –             | 52     |
| Inventories   | 9     | 14            | 15     |
| Prepaid expenses and other current assets               |       | 14            | 27     |
|   |       | <b>469</b>    | 520    |
| <b>Non-current assets</b>                               |       |               |        |
| Property, plant and equipment                           | 10    | 15,550        | 15,089 |
| Intangibles   | 11    | 577           | 557    |
| Right-of-use assets                                     | 3,16  | 6             | –      |
| Long-term advances to affiliate company                 | 27    | –             | 78     |
| Other assets  |       | 10            | 11     |
| <b>Total assets</b>                                     |       | <b>16,612</b> | 16,255 |
| <b>LIABILITIES</b>                                      |       |               |        |
| <b>Current liabilities</b>                              |       |               |        |
| Accounts payable and accrued liabilities                |       | 379           | 410    |
| Accounts payable to parent and affiliate companies      | 27    | 28            | 42     |
| Lease liabilities                                       | 3,16  | 2             | –      |
| Other current liabilities                               |       | 8             | 6      |
| Short-term debt   | 12    | –             | 25     |
| Long-term debt  | 13    | 100           | 480    |
|   |       | <b>517</b>    | 963    |
| <b>Non-current liabilities</b>                          |       |               |        |
| Deferred income tax liabilities                         | 8     | 1,276         | 1,325  |
| Retirement benefit obligations                          | 14    | 157           | 149    |
| Customer contributions                                  | 15    | 1,705         | 1,683  |
| Lease liabilities                                       | 3,16  | 4             | –      |
| Other liabilities                                       |       | 16            | 18     |
| Long-term debt  | 13    | 7,951         | 7,472  |
| <b>Total liabilities</b>                                |       | <b>11,626</b> | 11,610 |
| <b>EQUITY</b>   |       |               |        |
| Equity preferred shares                                 | 17    | 187           | 187    |
| Equity preferred shares to parent company               | 17,27 | 79            | 79     |
| <b>Class A and Class B share owner's equity</b>         |       |               |        |
| Class A and Class B shares                              | 18    | 1,056         | 1,056  |
| Retained earnings                                       |       | 3,664         | 3,323  |
|   |       | <b>4,720</b>  | 4,379  |
| <b>Total equity</b>                                     |       | <b>4,986</b>  | 4,645  |
| <b>Total liabilities and equity</b>                     |       | <b>16,612</b> | 16,255 |

See accompanying Notes to Consolidated Financial Statements.

[Original signed by S.W. Kiefer]

DIRECTOR

[Original signed by R.J. Urwin]

DIRECTOR

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| <i>(millions of Canadian Dollars)</i>                             | Note  | Class A and<br>Class B Shares | Equity<br>Preferred<br>Shares | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Equity |
|---|-------|-------------------------------|-------------------------------|----------------------|---|-----------------|
| December 31, 2017   |       | 1,056                         | 266                           | 3,320                | –   | 4,642           |
| Earnings for the year   |       | –                             | –                             | 345                  | –   | 345             |
| Other comprehensive income  |       | –                             | –                             | –                    | 4   | 4               |
| Gains on retirement benefits<br>transferred to retained earnings  | 14    | –                             | –                             | 4                    | (4)   | –               |
| Dividends   | 17,18 | –                             | –                             | (346)                | –   | (346)           |
| December 31, 2018   |       | 1,056                         | 266                           | 3,323                | –   | 4,645           |
| Earnings for the year   |       | –                             | –                             | <b>746</b>           | –   | <b>746</b>      |
| Other comprehensive loss  |       | –                             | –                             | –                    | <b>(9)</b>                                      | <b>(9)</b>      |
| Losses on retirement benefits<br>transferred to retained earnings | 14    | –                             | –                             | <b>(9)</b>           | <b>9</b>  | –               |
| Dividends   | 17,18 | –                             | –                             | <b>(396)</b>         | –   | <b>(396)</b>    |
| December 31, 2019   |       | <b>1,056</b>                  | <b>266</b>                    | <b>3,664</b>         | –   | <b>4,986</b>    |

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>(millions of Canadian Dollars)</i>                                     | Note | Year Ended<br>December 31 |         |
|---|------|---------------------------|---------|
|   |      | 2019                      | 2018    |
| <b>Operating activities</b>   |      |                           |         |
| Earnings for the year   |      | 746                       | 345     |
| Adjustments to reconcile earnings to cash flows from operating activities | 19   | 819                       | 987     |
| Changes in non-cash working capital                                       | 19   | (13)                      | 19      |
| <b>Cash flows from operating activities</b>                               |      | <b>1,552</b>              | 1,351   |
| <b>Investing activities</b>   |      |                           |         |
| Additions to property, plant and equipment                                |      | (890)                     | (884)   |
| Proceeds on disposal of property, plant and equipment                     |      | 1                         | 1       |
| Additions to intangibles  |      | (61)                      | (93)    |
| Repayment of long-term advances by affiliate company                      |      | 130                       | -       |
| Changes in non-cash working capital                                       | 19   | (1)                       | (82)    |
| Other   |      | -                         | 1       |
| <b>Cash flows used in investing activities</b>                            |      | <b>(821)</b>              | (1,057) |
| <b>Financing activities</b>   |      |                           |         |
| Net (repayment) issue of short-term debt                                  | 12   | (25)                      | 25      |
| Issue of long-term debt   | 13   | 581                       | 387     |
| Repayment of long-term debt   | 13   | (480)                     | -       |
| Repayment of lease liabilities  | 16   | (2)                       | -       |
| Dividends paid on equity preferred shares                                 | 17   | (11)                      | (11)    |
| Dividends paid to Class A and Class B share owner                         | 18   | (385)                     | (335)   |
| Interest paid   |      | (379)                     | (377)   |
| Interest received from parent and affiliate companies                     | 27   | 25                        | 15      |
| Other   |      | (5)                       | (3)     |
| <b>Cash flows used in financing activities</b>                            |      | <b>(681)</b>              | (299)   |
| <b>Increase (decrease) in cash position</b>                               |      | <b>50</b>                 | (5)     |
| Beginning of year   |      | 21                        | 26      |
| <b>End of year</b>  | 19   | <b>71</b>                 | 21      |

See accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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

## 1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 4th floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

- Electricity (electricity transmission and distribution); and
- Pipelines & Liquids (natural gas transmission and distribution).

The consolidated financial statements include the accounts of CU Inc. and its subsidiaries (see Note 24). In these financial statements, "the Company" means CU Inc. and its subsidiaries.

## 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 26, 2020.

### BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for 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 28.

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 JUDGMENTS AND ESTIMATES

Management makes judgments and estimates 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 judgments and estimates 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 23.

### 3. CHANGE IN ACCOUNTING POLICY

#### LEASES

The Company adopted IFRS 16 *Leases* on January 1, 2019, which introduces a new approach to lease accounting. The Company adopted the standard using the modified retrospective approach, which does not require restatement of prior year financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in these consolidated financial statements has not been restated.

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts in existence at January 1, 2019, and is applied to contracts entered into, or modified, on or after January 1, 2019.

#### **Practical expedients**

Effective January 1, 2019, the IFRS 16 transition date, the Company elected to use the following practical expedients under the modified retrospective transition approach:

- Leases with lease terms of less than twelve months (short-term leases) and leases of low-value assets (less than \$5,000 U.S. dollars) (low-value leases) that have been identified at transition, were not recognized in the consolidated balance sheet;
- Right-of-use assets on transition were measured at the amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments;
- For certain leases having associated initial direct costs, the Company, at initial measurement on transition, excluded these direct costs from the measurement of the right-of-use assets; and
- Any provision for onerous lease contracts previously recognized at the date of adoption of IFRS 16, has been applied to the associated right-of-use asset recognized upon transition.

The Company's consolidated financial statements were not impacted by the adoption of IFRS 16 *Leases* in relation to lessor accounting. Lessors will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17 *Leases*.

#### **Sub-surface Rights**

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner's land, and the owner of the pipeline has exclusive use of the underground space.

The Company has assessed the impact of the interpretation on its pipeline sub-surface arrangements. Based on the analysis performed, the impact on the consolidated financial statements is not significant.

## IMPACT OF CHANGES IN ACCOUNTING POLICY

### Impact of adoption of IFRS 16 on consolidated financial statements

On January 1, 2019, the Company recognized \$8 million of right-of-use assets and \$8 million of lease liabilities. The Company applied its weighted average incremental borrowing rate at January 1, 2019, 3.00 per cent, to determine the amount of lease liabilities. The effect of the adjustment to the amounts recognized in the Company's consolidated balance sheet at January 1, 2019 is shown below.

| <i>(millions of Canadian Dollars)</i>           | Note | December 31,<br>2018,<br>as previously<br>reported | IFRS 16 re-<br>measurement<br>adjustments<br>on January 1,<br>2019 | Restated |
|---|------|--|--|----------|
| <b>ASSETS</b>                                   |      |  |  |          |
| <b>Non-current assets</b>                       |      |  |  |          |
| Right-of-use assets                             | 16   | –  | 8  | 8        |
| <b>Total assets</b>                             |      | 16,255   | 8  | 16,263   |
| <b>LIABILITIES</b>                              |      |  |  |          |
| <b>Current liabilities</b>                      |      |  |  |          |
| Lease liabilities                               | 16   | –  | 2  | 2        |
| <b>Non-current liabilities</b>                  |      |  |  |          |
| Lease liabilities                               | 16   | –  | 6  | 6        |
| <b>Total liabilities</b>                        |      | 11,610   | 8  | 11,618   |
| <b>EQUITY</b>                                   |      |  |  |          |
| Equity preferred shares                         |      | 187  | –  | 187      |
| Equity preferred shares to parent company       |      | 79   | –  | 79       |
| <b>Class A and Class B share owner's equity</b> |      |  |  |          |
| Class A and Class B shares                      |      | 1,056  | –  | 1,056    |
| Retained earnings                               |      | 3,323  | –  | 3,323    |
|   |      | 4,379  | –  | 4,379    |
| <b>Total equity</b>                             |      | 4,645  | –  | 4,645    |
| <b>Total liabilities and equity</b>             |      | 16,255   | 8  | 16,263   |

The reconciliation of differences between the operating lease commitments disclosed at December 31, 2018 (when applying IAS 17 *Leases*), discounted using the weighted average incremental borrowing rate at January 1, 2019, and the lease liabilities recognized upon adoption of IFRS 16 *Leases*, is shown below.

|  |      |
|--|------|
| Operating lease commitments at December 31, 2018, as previously reported   | 25   |
| Adjustment to reflect discounting of the operating lease commitments at December 31, 2018, using the weighted average incremental borrowing rate | (2)  |
| Lease liabilities at January 1, 2019, before exemptions and other adjustments  | 23   |
| Exemptions applied upon recognition of lease liabilities:  |      |
| Short-term leases  | (1)  |
| Contracts not meeting the definition of a lease <sup>(1)</sup>   | (15) |
| Recognition of the lease term extension option <sup>(2)</sup>  | 1    |
| Lease liabilities recognized at January 1, 2019  | 8    |

(1) Contracts not meeting the definition of a lease are comprised of contracts or certain components of contracts that are considered executory service arrangements.

(2) Recognition of the lease term extension option relates to leases where the extension option is reasonably certain to be exercised.

## 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 President 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

|                                |  |
|--------------------------------|--|
| <b>Electricity</b>             | The Electricity segment includes ATCO Electric Transmission and ATCO Electric Distribution. These business provide regulated electricity transmission, distribution and related infrastructure solutions in northern and central east Alberta, the Yukon, the Northwest Territories. |
| <b>Pipelines &amp; Liquids</b> | The Pipelines & Liquids segment includes ATCO Gas and ATCO Pipelines. These businesses provide integrated natural gas transmission, distribution and related infrastructure development throughout Alberta and in the Lloydminster area of Saskatchewan.                             |

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

|                                     | Electricity   | Pipelines & Liquids | Corporate & Other | Intersegment Eliminations | Consolidated   |
|-------------------------------------|---------------|---------------------|-------------------|---------------------------|----------------|
| <b>2019</b>                         |               |                     |                   |                           |                |
| <b>2018</b>                         |               |                     |                   |                           |                |
| Revenues - external                 | <b>1,417</b>  | <b>1,370</b>        | -                 | -                         | <b>2,787</b>   |
|                                     | 1,318         | 1,189               | -                 | -                         | 2,507          |
| Revenues - intersegment             | <b>1</b>      | <b>1</b>            | -                 | <b>(2)</b>                | -              |
|                                     | -             | 1                   | -                 | (1)                       | -              |
| Revenues                            | <b>1,418</b>  | <b>1,371</b>        | -                 | <b>(2)</b>                | <b>2,787</b>   |
|                                     | 1,318         | 1,190               | -                 | (1)                       | 2,507          |
| Operating expenses <sup>(1)</sup>   | <b>(484)</b>  | <b>(751)</b>        | -                 | <b>5</b>                  | <b>(1,230)</b> |
|                                     | (489)         | (693)               | -                 | 7                         | (1,175)        |
| Depreciation and amortization       | <b>(296)</b>  | <b>(200)</b>        | -                 | -                         | <b>(496)</b>   |
|                                     | (313)         | (199)               | -                 | -                         | (512)          |
| Net finance costs                   | <b>(231)</b>  | <b>(127)</b>        | <b>14</b>         | -                         | <b>(344)</b>   |
|                                     | (224)         | (124)               | 1                 | -                         | (347)          |
| Earnings before income taxes        | <b>407</b>    | <b>293</b>          | <b>14</b>         | <b>3</b>                  | <b>717</b>     |
|                                     | 292           | 174                 | 1                 | 6                         | 473            |
| Income tax recovery (expense)       | <b>37</b>     | <b>(4)</b>          | <b>(3)</b>        | <b>(1)</b>                | <b>29</b>      |
|                                     | (78)          | (48)                | -                 | (2)                       | (128)          |
| Earnings for the year               | <b>444</b>    | <b>289</b>          | <b>11</b>         | <b>2</b>                  | <b>746</b>     |
|                                     | 214           | 126                 | 1                 | 4                         | 345            |
| Adjusted earnings                   | <b>329</b>    | <b>194</b>          | <b>(1)</b>        | <b>2</b>                  | <b>524</b>     |
|                                     | 288           | 182                 | 1                 | 4                         | 475            |
| Total assets                        | <b>10,211</b> | <b>6,377</b>        | <b>75</b>         | <b>(51)</b>               | <b>16,612</b>  |
|                                     | 10,123        | 6,021               | 139               | (28)                      | 16,255         |
| Capital expenditures <sup>(2)</sup> | <b>389</b>    | <b>577</b>          | -                 | -                         | <b>966</b>     |
|                                     | 467           | 529                 | -                 | -                         | 996            |

(1) Includes total costs and expenses, excluding depreciation and amortization expense.

(2) Includes additions to property, plant and equipment and intangibles and \$15 million of interest capitalized during construction for year ended December 31, 2019 (2018 - \$19 million).

## ADJUSTED EARNINGS

Adjusted earnings are earnings for the period 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;
- 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.

|  | Electricity | Pipelines & Liquids | Corporate & Other | Intersegment Eliminations | Consolidated |
|--|-------------|---------------------|-------------------|---------------------------|--------------|
| <b>2019</b>  |             |                     |                   |                           |              |
| <b>2018</b>  |             |                     |                   |                           |              |
| Adjusted earnings  | <b>329</b>  | <b>194</b>          | <b>(1)</b>        | <b>2</b>                  | <b>524</b>   |
|  | 288         | 182                 | 1                 | 4                         | 475          |
| Prepayment penalty received on early settlement of long-term advances to affiliate companies | <b>–</b>    | <b>–</b>            | <b>12</b>         | <b>–</b>                  | <b>12</b>    |
|  | –           | –                   | –                 | –                         | –            |
| Restructuring and other costs  | <b>–</b>    | <b>–</b>            | <b>–</b>          | <b>–</b>                  | <b>–</b>     |
|  | (25)        | (14)                | –                 | –                         | (39)         |
| Rate-regulated activities  | <b>121</b>  | <b>101</b>          | <b>–</b>          | <b>–</b>                  | <b>222</b>   |
|  | (55)        | (47)                | –                 | –                         | (102)        |
| IT Common Matters decision   | <b>(12)</b> | <b>(11)</b>         | <b>–</b>          | <b>–</b>                  | <b>(23)</b>  |
|  | –           | –                   | –                 | –                         | –            |
| Dividends on equity preferred shares of the Company  | <b>6</b>    | <b>5</b>            | <b>–</b>          | <b>–</b>                  | <b>11</b>    |
|  | 6           | 5                   | –                 | –                         | 11           |
| Earnings for the year  | <b>444</b>  | <b>289</b>          | <b>11</b>         | <b>2</b>                  | <b>746</b>   |
|  | 214         | 126                 | 1                 | 4                         | 345          |

### ***Prepayment penalty received on early settlement of long-term advances to affiliate companies***

In 2019, the Company recorded \$16 million (\$12 million after-tax) related to a prepayment penalty fee on the early repayment of \$78 million of long-term advances issued to its affiliate company. The repaid amounts were originally due from 2020 to 2023 (see Note 27).

### ***Restructuring and other costs***

In 2018, restructuring and other costs not in the normal course of business of \$39 million after-tax were recorded. These costs mainly related to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represented long-term strategic value to the Company.

### ***Rate-regulated activities***

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas and ATCO Pipelines 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 regulator's decisions on revenues.

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

| <b>Timing Adjustment</b>                              | <b>Items</b>  | <b>RRA Treatment</b>   | <b>IFRS Treatment</b>  |
|---|---|--|--|
| 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 and impact of warmer temperatures.                      | 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.                                    |

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

|   | 2019       | 2018         |
|---|------------|--------------|
| <i>Additional revenues billed in current period</i>                                     |            |              |
| Future removal and site restoration costs <sup>(1)</sup>                                | 65         | 74           |
| Impact of colder temperatures <sup>(2)</sup>  | 13         | 12           |
| <i>Revenues to be billed in future periods</i>  |            |              |
| Deferred income taxes <sup>(3)</sup>  | (95)       | (103)        |
| Deferred income taxes due to decrease in provincial corporate income tax <sup>(4)</sup> | 210        | -            |
| <i>Regulatory decisions received (see below)</i>  | 6          | -            |
| <i>Settlement of regulatory decisions and other items</i> <sup>(5)</sup>                | 23         | (85)         |
|   | <b>222</b> | <b>(102)</b> |

(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) In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022 (see Note 8). As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings in 2019 by \$210 million.

(5) In 2018, ATCO Electric Transmission 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 related to a refund of previously over-collected transmission costs.

### Regulatory decisions received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2019 is provided below.

| Decision   | Amount | Description   |
|--|--------|---|
| 1. Information Technology (IT) Common Matters                  | 23     | <p>In August 2014, CU Inc.'s parent, Canadian Utilities Limited (CU), sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015.</p> <p>In 2015, the Alberta Utilities Commission (AUC) commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to December 31, 2019 was \$23 million. Of this amount, \$14 million relates to the period January 1, 2015 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining \$9 million was recorded in the second half of 2019.</p> |
| 2. ATCO Electric Transmission General Tariff Application (GTA) | (17)   | <p>In June 2017, ATCO Electric Transmission filed a GTA for its operations for 2018 and 2019. An AUC decision was issued in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision was \$17 million, of which \$9 million relates to 2018.</p>   |

### **IT Common Matters decision**

As described in the IT Common Matters decision above, in August 2014, CU Inc.'s parent, CU sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were \$204 million, resulting in a one-time after-tax gain of \$138 million. In 2014, CU did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding which is described in the regulatory decisions received section above. In the proceeding, the Company presented a considerable amount of evidence, including expert benchmarking and price review studies to support that the Wipro MSA rates were at fair market value. As such, there was no cross subsidization between the sale price of the CU's IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC found that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

Consistent with the treatment in 2014, the \$23 million reduction recognized in 2019, along with future impacts associated with this decision, will be excluded from adjusted earnings.

## **5. REVENUES**

The Company disaggregates revenues based on the revenue streams of the operating segments. The disaggregation of revenues by revenue streams by each operating segment for the year ended December 31 are shown below:

|                              | Electricity | Pipelines & Liquids | Corporate & Other | Total |
|------------------------------|-------------|---------------------|-------------------|-------|
| <b>2019</b>                  |             |                     |                   |       |
| <b>2018</b>                  |             |                     |                   |       |
| <b>Revenue Streams</b>       |             |                     |                   |       |
| <b>Rendering of Services</b> |             |                     |                   |       |
| Distribution services        | 589         | 849                 | -                 | 1,438 |
|                              | 567         | 742                 | -                 | 1,309 |
| Transmission services        | 674         | 278                 | -                 | 952   |
|                              | 622         | 245                 | -                 | 867   |
| Customer contributions       | 46          | 19                  | -                 | 65    |
|                              | 32          | 18                  | -                 | 50    |
| Franchise fees               | 32          | 207                 | -                 | 239   |
|                              | 25          | 183                 | -                 | 208   |
| Total rendering of services  | 1,341       | 1,353               | -                 | 2,694 |
|                              | 1,246       | 1,188               | -                 | 2,434 |
| <b>Other</b>                 | 77          | 16                  | -                 | 93    |
|                              | 72          | 1                   | -                 | 73    |
| <b>Total</b>                 | 1,418       | 1,369               | -                 | 2,787 |
|                              | 1,318       | 1,189               | -                 | 2,507 |

## **6. OTHER COSTS AND EXPENSES**

Other costs and expenses include rent, utilities and 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.

|  | 2019        | 2018 |
|--|-------------|------|
| Long-term debt                                     | 371         | 372  |
| Retirement benefits net interest expense           | 3           | 3    |
| Amortization of deferred financing charges         | 2           | 1    |
| Other  | 9           | 5    |
|  | <b>385</b>  | 381  |
| Less: interest capitalized ( <i>Notes 10, 11</i> ) | <b>(15)</b> | (19) |
|  | <b>370</b>  | 362  |

Borrowing costs capitalized to property, plant and equipment during 2019 were calculated by applying a weighted average interest rate of 4.62 per cent (2018 - 4.80 per cent) to expenditures on qualifying assets.

## 8. INCOME TAXES

### IMPACT OF CHANGE IN INCOME TAX RATE

In May 2019, the Alberta government passed Bill 3, the Job Creation Tax Cut, which will reduce the Alberta provincial corporate tax rate from 12 per cent to 8 per cent in a phased approach between July 1, 2019 and January 1, 2022.

As a result of this change the Company made an adjustment in 2019 to income taxes of \$211 million. Of this amount, \$1 million relates to current income taxes and \$210 million relates to deferred income taxes.

As the tax rate change came into effect on July 1, 2019, the combined federal and Alberta statutory Canadian income tax rate for 2019 is 26.5 per cent. Prior to the change, the combined federal and Alberta statutory Canadian income tax rate for 2019 was 27.0 per cent.

### INCOME TAX EXPENSE

The components of income tax expense for the year ended December 31 are summarized below.

|   | 2019        | 2018 |
|---|-------------|------|
| <b>Current income tax expense</b>   |             |      |
| Expenses for the year   | 15          | 6    |
| Change in income taxes resulting from decrease in provincial corporate tax rate | (1)         | -    |
| Adjustment in respect of prior years  | 3           | (1)  |
|   | <b>17</b>   | 5    |
| <b>Deferred income tax expense</b>  |             |      |
| Reversal of temporary differences   | 167         | 123  |
| Change in income taxes resulting from decrease in provincial corporate tax rate | (210)       | -    |
| Adjustment in respect of prior years  | (3)         | -    |
|   | <b>(46)</b> | 123  |
|   | <b>(29)</b> | 128  |

The reconciliation of statutory and effective income tax expense for the year ended December 31 is as follows:

|   | 2019         | 2018 |
|---|--------------|------|
| Earnings before income taxes  | 717          | 473  |
|   | %            | %    |
| Income taxes, at statutory rates  | 190          | 128  |
|   | 26.5         | 27.0 |
| Change in income taxes resulting from decrease in provincial corporate tax rate | (211)        | -    |
|   | (29.4)       | -    |
| Statutory and deferred tax rate variance  | (9)          | -    |
|   | (1.2)        | -    |
| Other   | 1            | -    |
|   | -            | -    |
|   | <b>(29)</b>  | 128  |
|   | <b>(4.1)</b> | 27.0 |

## INCOME TAX ASSETS AND LIABILITIES

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

| Balance Sheet Presentation    |   | 2019  | 2018  |
|-------------------------------|---|-------|-------|
| <b>Income tax assets</b>      |   |       |       |
| Current                       | Prepaid expenses and other current assets | 1     | 16    |
| <b>Income tax liabilities</b> |   |       |       |
| Current                       | Other current liabilities                 | 8     | -     |
| Deferred                      | Deferred income tax liabilities           | 1,276 | 1,325 |

## DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

| Movements   | Property, Plant and Equipment | Intangibles | Tax Loss Carry Forwards and Tax Credits | Retirement Benefit Obligations | Other | Total |
|---|-------------------------------|-------------|---|--------------------------------|-------|-------|
| December 31, 2017   | 1,176                         | 98          | (73)                                    | (45)                           | 44    | 1,200 |
| Charge (credit) to earnings   | 124                           | 9           | 4                                       | -                              | (14)  | 123   |
| Charge to other comprehensive income  | -                             | -           | -                                       | 1                              | -     | 1     |
| Other   | (2)                           | (1)         | 2                                       | 4                              | (2)   | 1     |
| December 31, 2018   | 1,298                         | 106         | (67)                                    | (40)                           | 28    | 1,325 |
| Charge (credit) to earnings   | 168                           | (2)         | 9                                       | -                              | (11)  | 164   |
| Credit to other comprehensive income  | -                             | -           | -                                       | (2)                            | -     | (2)   |
| Change in income taxes resulting from decrease in provincial corporate tax rate | (202)                         | (18)        | 4                                       | 6                              | -     | (210) |
| Other   | -                             | -           | -                                       | -                              | (1)   | (1)   |
| December 31, 2019   | 1,264                         | 86          | (54)                                    | (36)                           | 16    | 1,276 |

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

At December 31, 2019, the Company had \$215 million of non-capital tax losses and credits which expire between 2034 and 2037. The Company recognized deferred income tax assets of \$54 million for these losses and credits.

## 9. INVENTORIES

Inventories at December 31 are comprised of:

|                                 | 2019 | 2018 |
|---------------------------------|------|------|
| Natural gas and fuel in storage | 9    | 8    |
| Raw materials and consumables   | 5    | 7    |
|                                 | 14   | 15   |

For the year ended December 31, 2019, inventories recognized as an expense were \$2 million (2018 - \$5 million).

## 10. PROPERTY, PLANT AND EQUIPMENT

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

|                                 | Utility<br>Transmission<br>& Distribution | Land and<br>Buildings | Construction<br>Work-in-<br>Progress | Other | Total  |
|---------------------------------|---|-----------------------|--------------------------------------|-------|--------|
| <b>Cost</b>                     |   |                       |                                      |       |        |
| December 31, 2017               | 17,144                                    | 610                   | 439                                  | 648   | 18,841 |
| Additions                       | 2   | 1                     | 920                                  | –     | 923    |
| Transfers                       | 872                                       | 10                    | (904)                                | 22    | –      |
| Retirements and disposals       | (72)                                      | (3)                   | –                                    | (13)  | (88)   |
| December 31, 2018               | 17,946                                    | 618                   | 455                                  | 657   | 19,676 |
| Additions                       | –   | –                     | 935                                  | –     | 935    |
| Transfers                       | 865                                       | 12                    | (891)                                | 14    | –      |
| Retirements and disposals       | (86)                                      | (16)                  | (15)                                 | (11)  | (128)  |
| December 31, 2019               | 18,725                                    | 614                   | 484                                  | 660   | 20,483 |
| <b>Accumulated depreciation</b> |   |                       |                                      |       |        |
| December 31, 2017               | 3,826                                     | 139                   | –                                    | 245   | 4,210  |
| Depreciation                    | 411                                       | 19                    | –                                    | 34    | 464    |
| Retirements and disposals       | (72)                                      | (2)                   | –                                    | (13)  | (87)   |
| December 31, 2018               | 4,165                                     | 156                   | –                                    | 266   | 4,587  |
| Depreciation                    | 397                                       | 18                    | –                                    | 43    | 458    |
| Retirements and disposals       | (85)                                      | (16)                  | –                                    | (11)  | (112)  |
| December 31, 2019               | 4,477                                     | 158                   | –                                    | 298   | 4,933  |
| <b>Net book value</b>           |   |                       |                                      |       |        |
| December 31, 2018               | 13,781                                    | 462                   | 455                                  | 391   | 15,089 |
| December 31, 2019               | 14,248                                    | 456                   | 484                                  | 362   | 15,550 |

The additions to property, plant and equipment included \$14 million of interest capitalized during construction for the year ended December 31, 2019 (2018 - \$17 million).

## 11. 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 |
|---------------------------------|-------------------|-------------|-------|-------|
| <b>Cost</b>                     |                   |             |       |       |
| December 31, 2017               | 542               | 346         | 9     | 897   |
| Additions                       | 50                | 25          | –     | 75    |
| Retirements                     | (3)               | –           | –     | (3)   |
| December 31, 2018               | 589               | 371         | 9     | 969   |
| Additions                       | 42                | 18          | –     | 60    |
| Retirements                     | (115)             | –           | –     | (115) |
| December 31, 2019               | 516               | 389         | 9     | 914   |
| <b>Accumulated amortization</b> |                   |             |       |       |
| December 31, 2017               | 330               | 43          | 3     | 376   |
| Amortization                    | 34                | 5           | –     | 39    |
| Retirements                     | (3)               | –           | –     | (3)   |
| December 31, 2018               | 361               | 48          | 3     | 412   |
| Amortization                    | 34                | 5           | 1     | 40    |
| Retirements                     | (115)             | –           | –     | (115) |
| December 31, 2019               | 280               | 53          | 4     | 337   |
| <b>Net book value</b>           |                   |             |       |       |
| December 31, 2018               | 228               | 323         | 6     | 557   |
| December 31, 2019               | 236               | 336         | 5     | 577   |

The additions to intangibles included \$1 million of interest capitalized during construction for the year ended December 31, 2019 (2018 - \$2 million).

## 12. SHORT-TERM DEBT

At December 31, 2019, the Company had no commercial paper outstanding (2018 - \$25 million of commercial paper outstanding at an effective interest rate of 2.31 per cent, matured in January 2019).

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

## 13. LONG-TERM DEBT

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

|  | Effective Interest Rate | 2019  | 2018  |
|--|-------------------------|-------|-------|
| CU Inc. debentures - unsecured <sup>(1)</sup>                                | 4.616% (2018 - 4.838%)  | 8,090 | 7,990 |
| CU Inc. other long-term obligation, due June 2021 - unsecured <sup>(2)</sup> | 3.95% (2018 - 3.95%)    | 6     | 5     |
| Less: deferred financing charges   |                         | (45)  | (43)  |
|  |                         | 8,051 | 7,952 |
| Less: amounts due within one year  |                         | (100) | (480) |
|  |                         | 7,951 | 7,472 |

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

(2) During 2019, the expiry date of the CU Inc. other long-term obligation was extended from December 2020 to June 2021.

## DEBENTURE ISSUANCES AND REPAYMENTS

On September 5, 2019, the Company issued \$580 million of 2.963 per cent debentures maturing on September 7, 2049 (2018 - \$385 million of 3.95 per cent debentures maturing on November 23, 2048).

The Company repaid \$180 million of 5.432 per cent debentures on January 23, 2019 and \$300 million of 6.8 per cent debentures on August 13, 2019.

## 14. RETIREMENT BENEFITS

The Company, together with Canadian Utilities Limited and its subsidiary companies, maintains registered defined benefit and defined contribution pension plans for most of its employees. It also provides other post-employment benefits, 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, together with Canadian Utilities Limited and its subsidiary companies, also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2019.

Contributions to the registered group defined benefit pension plan, which is accounted for as a defined contribution pension plan, are expensed as paid. Other post-employment benefit (OPEB) and non-registered defined benefit pension plans, which the Company funds out of general revenues, are administered on a combined basis with Canadian Utilities Limited and its subsidiary companies. For non-registered defined benefit pensions, the Company is assessed a percentage of the total cost of the plans.

### THE COMPANY'S BENEFIT PLANS

Information about the Company's participation in the group benefit plans is as follows:

|   | 2019                  |            | 2018                  |            |
|---|-----------------------|------------|-----------------------|------------|
|   | Pension Benefit Plans | OPEB Plans | Pension Benefit Plans | OPEB Plans |
| <b>Benefit plan cost</b>                |                       |            |                       |            |
| Defined benefit plans cost              | 17                    | 5          | 22                    | 5          |
| Defined contribution plans cost         | 17                    | -          | 19                    | -          |
| Total cost                              | 34                    | 5          | 41                    | 5          |
| Less: Capitalized                       | 20                    | 3          | 24                    | 3          |
| Net cost recognized                     | 14                    | 2          | 17                    | 2          |
| <b>Accrued benefit obligations</b>      |                       |            |                       |            |
| Beginning of year                       | 53                    | 96         | 54                    | 98         |
| Defined benefit plan cost               | 17                    | 5          | 22                    | 5          |
| Benefit payments                        | (5)                   | (3)        | (5)                   | (3)        |
| Contributions to defined benefit plans  | (17)                  | -          | (17)                  | -          |
| Actuarial losses (gains) <sup>(1)</sup> | 5                     | 6          | (1)                   | (4)        |
| End of year                             | 53                    | 104        | 53                    | 96         |

(1) Losses net of income taxes were \$9 million for the year ended December 31, 2019 (2018 - gains of \$4 million).



## WEIGHTED AVERAGE ASSUMPTIONS

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

|  | 2019                  |            | 2018                  |            |
|--|-----------------------|------------|-----------------------|------------|
|  | Pension Benefit Plans | OPEB Plans | Pension Benefit Plans | OPEB Plans |
| <b>Benefit plan cost</b>                   |                       |            |                       |            |
| Discount rate for the year                 | 3.80%                 | 3.80%      | 3.60%                 | 3.60%      |
| Average compensation increase for the year | 2.50%                 | n/a        | 2.50%                 | n/a        |
| <b>Accrued benefit obligations</b>         |                       |            |                       |            |
| Discount rate at December 31               | 3.10%                 | 3.10%      | 3.80%                 | 3.80%      |
| Long-term inflation rate                   | 2.00%                 | n/a        | 2.00%                 | n/a        |
| Health care cost trend rate:               |                       |            |                       |            |
| Drug costs <sup>(1)</sup>                  | n/a                   | 5.17%      | n/a                   | 5.30%      |
| Other medical costs                        | n/a                   | 4.00%      | 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 5.17 per cent rate per annum, grading down to 4.00 per cent in and after 2040.

## FUNDING

An actuarial valuation for funding purposes as of December 31, 2017 was completed in 2018 for the registered defined benefit pension plans. The estimated contribution for 2020 is \$17 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2020.

## 15. BALANCES FROM CONTRACTS WITH CUSTOMERS

Balances from contracts with customers are comprised of trade accounts receivable and contract assets, trade accounts receivable from parent and affiliate companies and customer contributions.

At December 31, trade accounts receivable and contract assets are included in accounts receivable and contract assets:

|   | 2019 | 2018 |
|---|------|------|
| Trade accounts receivable and contract assets | 350  | 358  |
| Other accounts receivable                     | 6    | 8    |
|   | 356  | 366  |

At December 31, trade accounts receivable from parent and affiliate companies are included in accounts receivable from parent and affiliate companies:

|   | 2019 | 2018 |
|---|------|------|
| Trade accounts receivable from parent and affiliate companies | 14   | 36   |
| Other accounts receivable from parent and affiliate companies | -    | 3    |
|   | 14   | 39   |

The significant changes in trade accounts receivable and contract assets and trade accounts receivable from parent and affiliate companies are as follows:

|   | Trade<br>accounts<br>receivable<br>and contract<br>assets | Trade accounts<br>receivable<br>from parent<br>and affiliate<br>companies | Total          |
|---|---|---|----------------|
| December 31, 2017   | 347   | 41  | 388            |
| Revenue from satisfied performance obligations            | 2,329   | 55  | 2,384          |
| Customer billings and other items not included in revenue | -   | 7   | 7              |
| Payments and settlements                                  | (2,318)   | (67)  | (2,385)        |
| December 31, 2018   | 358   | 36  | 394            |
| Revenue from satisfied performance obligations            | <b>2,668</b>  | <b>47</b>   | <b>2,715</b>   |
| Credit loss allowance                                     | <b>(1)</b>  | -   | <b>(1)</b>     |
| Customer billings and other items not included in revenue | -   | <b>(11)</b>   | <b>(11)</b>    |
| Payments and settlements                                  | <b>(2,675)</b>  | <b>(58)</b>   | <b>(2,733)</b> |
| December 31, 2019   | <b>350</b>  | <b>14</b>   | <b>364</b>     |

### CUSTOMER CONTRIBUTIONS

Certain additions to property, plant and equipment 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.

|                                   | 2019         | 2018  |
|-----------------------------------|--------------|-------|
| Beginning of year                 | 1,683        | 1,649 |
| Receipt of customer contributions | <b>87</b>    | 84    |
| Amortization                      | <b>(65)</b>  | (50)  |
| End of year                       | <b>1,705</b> | 1,683 |

## 16. LEASES

### RIGHT-OF-USE ASSETS

The Company's right-of-use assets mainly relate to the lease of land and buildings.

|   | Note | 2019<br>Land and<br>Buildings |
|---|------|-------------------------------|
| <b>Cost</b>                             |      |                               |
| January 1, 2019, on adoption of IFRS 16 | 3    | 8                             |
| December 31, 2019                       |      | <b>8</b>                      |
| <b>Accumulated depreciation</b>         |      |                               |
| January 1, 2019, on adoption of IFRS 16 | 3    | –                             |
| Depreciation                            |      | <b>2</b>                      |
| December 31, 2019                       |      | <b>2</b>                      |
| <b>Net book value</b>                   |      |                               |
| January 1, 2019, on adoption of IFRS 16 | 3    | 8                             |
| December 31, 2019                       |      | <b>6</b>                      |

### LEASE LIABILITIES

The Company has recognized lease liabilities in relation to the arrangements to lease land and buildings. The reconciliation of movements in lease liabilities is as follows:

|   | Note | 2019       |
|---|------|------------|
| January 1, 2019, on adoption of IFRS 16 | 3    | 8          |
| Interest expense <sup>(1)</sup>         |      | –          |
| Lease payments                          |      | <b>(2)</b> |
|   |      | <b>6</b>   |
| Less: amounts due within one year       |      | <b>(2)</b> |
| December 31, 2019                       |      | <b>4</b>   |

*(1) During the year ended December 31, 2019, interest expense was less than \$1 million.*

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

|   |          |
|---|----------|
| In one year or less                                 | <b>2</b> |
| In more than one year, but not more than five years | <b>4</b> |
| In more than five years                             | –        |
|   | <b>6</b> |

During the year ended December 31, 2019, \$4 million was expensed in relation to low-value leases, and no expenses were incurred in relation to short-term leases or leases with variable payments.

## 17. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

### EQUITY PREFERRED SHARES

#### Authorized and issued

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

| Issued  | 2019      |            | 2018      |            |
|---|-----------|------------|-----------|------------|
|   | Shares    | Amount     | Shares    | Amount     |
| <b>Cumulative Redeemable Preferred Shares</b> |           |            |           |            |
| 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)        |
|   |           | <b>187</b> |           | <b>187</b> |

#### Rights and privileges

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

(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.

### EQUITY PREFERRED SHARES TO PARENT COMPANY

#### Authorized and issued

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

| Issued  | 2019      |        | 2018      |        |
|---|-----------|--------|-----------|--------|
|   | Shares    | Amount | Shares    | Amount |
| <b>Perpetual Cumulative Second Preferred Shares</b> |           |        |           |        |
| 4.60% Series V                                      | 3,176,578 | 79     | 3,176,578 | 79     |

#### Rights and privileges

The Series V Perpetual Cumulative Second Preferred Shares are redeemable at the option of the Company at the stated value plus accrued and unpaid dividends.

### DIVIDENDS

Cash dividends declared and paid per share during the year ended December 31 are as follows:

| (dollars per share)                                 | 2019   | 2018   |
|---|--------|--------|
| <b>Cumulative Redeemable Preferred Shares</b>       |        |        |
| 4.60% Series 1                                      | 1.1500 | 1.1500 |
| 2.243% Series 4                                     | 0.5608 | 0.5608 |
| <b>Perpetual Cumulative Second Preferred Shares</b> |        |        |
| 4.60% Series V                                      | 1.1500 | 1.1500 |

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 9, 2020, the Company declared first quarter eligible dividends of \$0.2875 per Series 1 Preferred Share and \$0.1401875 per Series 4 Preferred Share.

## 18. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2019 is shown below.

|                            | Class A Non-Voting |            | Class B Common   |            | Total            |              |
|----------------------------|--------------------|------------|------------------|------------|------------------|--------------|
|                            | Shares             | Amount     | Shares           | Amount     | Shares           | Amount       |
| Authorized:                | Unlimited          |            | Unlimited        |            |                  |              |
| Issued and outstanding:    |                    |            |                  |            |                  |              |
| December 31, 2018 and 2019 | <b>3,570,322</b>   | <b>654</b> | <b>2,188,262</b> | <b>402</b> | <b>5,758,584</b> | <b>1,056</b> |

Class A and B shares have no par value.

The Company declared and paid cash dividends of \$66.86 per Class A non-voting share and Class B common share during 2019 (2018 - \$58.17). The payment and amount of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

## 19. CASH FLOW INFORMATION

### ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities for the year ended December 31 are summarized below.

|  | 2019        | 2018 |
|--|-------------|------|
| Depreciation and amortization                              | <b>496</b>  | 512  |
| Income tax (recovery) expense                              | <b>(29)</b> | 128  |
| Contributions by utility customers for extensions to plant | <b>87</b>   | 84   |
| Amortization of customer contributions                     | <b>(65)</b> | (50) |
| Net finance costs  | <b>344</b>  | 347  |
| Income taxes recovered (paid)                              | <b>6</b>    | (18) |
| Other  | <b>(20)</b> | (16) |
|  | <b>819</b>  | 987  |

### CHANGES IN NON-CASH WORKING CAPITAL

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

|   | 2019        | 2018 |
|---|-------------|------|
| <b>Operating activities</b>                             |             |      |
| Accounts receivable and contract assets                 | <b>2</b>    | (15) |
| Accounts receivable from parent and affiliate companies | <b>23</b>   | 5    |
| Inventories   | <b>-</b>    | 3    |
| Prepaid expenses and other current assets               | <b>-</b>    | 5    |
| Accounts payable and accrued liabilities                | <b>(14)</b> | 14   |
| Accounts payable to parent and affiliate companies      | <b>(14)</b> | 1    |
| Other current liabilities                               | <b>(10)</b> | 6    |
|   | <b>(13)</b> | 19   |
| <b>Investing activities</b>                             |             |      |
| Inventories   | <b>1</b>    | (3)  |
| Accounts receivable and contract assets                 | <b>7</b>    | -    |
| Prepaid expenses  | <b>2</b>    | (2)  |
| Accounts payable and accrued liabilities                | <b>(11)</b> | (77) |
|   | <b>(1)</b>  | (82) |

## DEBT RECONCILIATION

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

|  | Short-term<br>debt | Long-term<br>debt |
|--|--------------------|-------------------|
| <b>Liabilities from financing activities</b> |                    |                   |
| December 31, 2017                            | –                  | 7,567             |
| Net issue of debt                            | 25                 | 387               |
| Debt issue costs                             | –                  | (3)               |
| Amortization of deferred financing charges   | –                  | 1                 |
| December 31, 2018                            | 25                 | 7,952             |
| Net (repayment) issue of debt                | <b>(25)</b>        | <b>101</b>        |
| Debt issue costs                             | –                  | <b>(4)</b>        |
| Amortization of deferred financing charges   | –                  | <b>2</b>          |
| December 31, 2019                            | –                  | <b>8,051</b>      |

## CASH POSITION

Cash position in the consolidated statements of cash flows at December 31 is comprised of:

|                                       | 2019      | 2018 |
|---------------------------------------|-----------|------|
| Cash                                  | <b>1</b>  | 21   |
| Short-term advances to parent company | <b>70</b> | –    |
|                                       | <b>71</b> | 21   |

## 20. 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  |
|--|--|
| <b>Measured at Amortized Cost</b>  |  |
| Cash, short-term advances to parent company, accounts receivable and contract assets, accounts receivable from parent and affiliate companies, accounts payable and accrued liabilities, accounts payable to parent and affiliate companies and short-term debt. | Assumed to approximate carrying value due to their short-term nature.  |
| Long-term advances to affiliate company and 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). |

At December 31, the fair values of the Company's financial instruments measured at amortized cost are as follows:

| Recurring Measurements                  | 2019           |            | 2018           |            |
|---|----------------|------------|----------------|------------|
|   | Carrying Value | Fair Value | Carrying Value | Fair Value |
| <b>Financial Assets</b>                 |                |            |                |            |
| Long-term advances to affiliate company | -              | -          | 130            | 147        |
| <b>Financial Liabilities</b>            |                |            |                |            |
| Long-term debt                          | 8,051          | 9,685      | 7,952          | 8,591      |

#### OFFSETTING FINANCIAL ASSETS

At December 31, the following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

| Financial Assets                        | 2019         |                     |                       | 2018         |                     |                       |
|---|--------------|---------------------|-----------------------|--------------|---------------------|-----------------------|
|   | Gross Amount | Gross Amount Offset | Net Amount Recognized | Gross Amount | Gross Amount Offset | Net Amount Recognized |
| Accounts receivable and contract assets | 59           | (37)                | 22                    | 118          | (76)                | 42                    |

## 21. 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'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 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

#### *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 is exposed to foreign exchange risk from financial instruments denominated in currencies other than the functional currency of an operation. The majority of this currency risk arises from exposure to the U.S. dollar. The Company offsets foreign exchange volatility in part by entering into foreign currency derivative contracts. 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.

### 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 accounts receivable and contract 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 by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

The Company does not have a concentration of credit risk with any counterparty. Accounts receivable and contract assets credit risk is reduced by a large and diversified customer base and credit security such as letters of credit.

The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations. At December 31, 2019, the Company held \$193 million in letters of credit for certain counterparty receivables (2018 - \$237 million). The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 25).

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days.

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, the summary of the expected credit loss rates for respective credit ratings is as follows:

|                   | High<br>(AA to AAA) | Medium<br>(BBB to A) | Low<br>(BB and below) |
|-------------------|---------------------|----------------------|-----------------------|
| December 31, 2019 | 0%-0.02%            | 0.06%-0.16%          | 0.53%-3.41%           |
| December 31, 2018 | 0%-0.03%            | 0.05%-0.26%          | 0.36%-1.05%           |

At December 31, 2019, the Company had less than \$20 million of accounts receivable and contract assets classified as Low (BB and below) (2018 - less than \$15 million).

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

At December 31, 2019, the expected credit loss allowance was \$1 million (2018 - less than \$1 million).

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

|               | 2019 | 2018 |
|---------------|------|------|
| Up to 30 days | 341  | 355  |
| 31 to 60 days | 4    | 2    |
| 61 to 90 days | 1    | -    |
| Over 90 days  | 4    | 1    |
|               | 350  | 358  |

## 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. 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 and Class A and B 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:

|                     | 2019  |      |           | 2018  |      |           |
|---------------------|-------|------|-----------|-------|------|-----------|
|                     | Total | Used | Available | Total | Used | Available |
| Long-term committed | 900   | 1    | 899       | 900   | 25   | 875       |
| Uncommitted         | 128   | 77   | 51        | 128   | 81   | 47        |
|                     | 1,028 | 78   | 950       | 1,028 | 106  | 922       |

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:

|                           | 2019      | 2018 |
|---------------------------|-----------|------|
| Short-term debt (Note 12) | –         | 25   |
| Letters of credit         | <b>78</b> | 81   |
|                           | <b>78</b> | 106  |

### **Commercial paper**

The Company is authorized to issue \$700 million 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, 2019, of the Company's financial liabilities based on the contractual undiscounted cash flows.

|  | 2020       | 2021       | 2022       | 2023       | 2024       | 2025 and thereafter |
|--|------------|------------|------------|------------|------------|---------------------|
| Accounts payable and accrued liabilities           | 379        | –          | –          | –          | –          | –                   |
| Accounts payable to parent and affiliate companies | 28         | –          | –          | –          | –          | –                   |
| Long-term debt:                                    |            |            |            |            |            |                     |
| Principal  | 100        | 166        | 125        | 100        | 120        | 7,485               |
| Interest expense                                   | 369        | 358        | 341        | 332        | 323        | 6,622               |
|  | <b>876</b> | <b>524</b> | <b>466</b> | <b>432</b> | <b>443</b> | <b>14,107</b>       |

## **22. 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 the impact of the AUC's decisions with respect to the company's subsidiaries, 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 the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares, short-term debt and 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 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 debt. A common financial covenant for a large portion of 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 and long-term debt (including current portion). It defines total capitalization as the sum of Class A and Class B shares, retained earnings, equity preferred shares, 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:

|   | 2019          | 2018   |
|---|---------------|--------|
| Short-term debt                           | –             | 25     |
| Long-term debt                            | <b>8,051</b>  | 7,952  |
| Total debt                                | <b>8,051</b>  | 7,977  |
| Class A and Class B shares                | <b>1,056</b>  | 1,056  |
| Retained earnings                         | <b>3,664</b>  | 3,323  |
| Equity preferred shares                   | <b>187</b>    | 187    |
| Equity preferred shares to parent company | <b>79</b>     | 79     |
| Total equity                              | <b>4,986</b>  | 4,645  |
| Total capitalization                      | <b>13,037</b> | 12,622 |
| Debt capitalization                       | <b>62%</b>    | 63%    |

For the year ended December 31, 2019, 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.

## 23. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

### SIGNIFICANT ACCOUNTING JUDGMENTS

#### *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.

#### *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. 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.

In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgment to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount

at a similar term and with a similar security. The Company estimates the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

### ***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 21.

### ***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.

### ***Leases***

Useful lives of right-of-use assets are 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.

### ***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 14.

## 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.

## 24. SUBSIDIARIES

Principal operating subsidiaries, all of which are wholly owned, are listed below.

| Principal Operating Subsidiaries | Principal Place of Business | Principal Activity  |
|----------------------------------|-----------------------------|---|
| 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               |

## 25. CONTINGENCIES

Measurement inaccuracies occur from time to time on electricity and gas metering facilities. These measurement adjustments 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 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.

## 26. COMMITMENTS

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

|                                      | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 and thereafter |
|--------------------------------------|------|------|------|------|------|---------------------|
| Purchase obligations:                |      |      |      |      |      |                     |
| Operating and maintenance agreements | 312  | 297  | 301  | 300  | 261  | 21                  |
| Capital expenditures                 | 118  | –    | –    | –    | –    | –                   |
| Other                                | 9    | –    | –    | –    | –    | –                   |
|                                      | 439  | 297  | 301  | 300  | 261  | 21                  |

## 27. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not included in this note.

### TRANSACTIONS WITH PARENT COMPANY OR ULTIMATE PARENT

| Transaction                                    | Recorded As                   | 2019 | 2018 |
|--|-------------------------------|------|------|
| Rent, aircraft usage and licensing fees        | Other expenses                | 16   | 17   |
| Capital projects and building rent             | Property, plant and equipment | 6    | 10   |
| Interest on short-term advances <sup>(1)</sup> | Interest income               | 2    | 3    |
| Interest on short-term advances <sup>(1)</sup> | Interest expense              | 1    | 1    |
| Equity preferred share dividends (Note 17)     | Retained earnings             | 4    | 4    |

(1) The interest rates on short-term advances are based on the Bank of Canada overnight rate plus an applicable spread.

### TRANSACTIONS WITH AFFILIATE COMPANIES

| Transaction   | Recorded As       | 2019 | 2018 |
|---|-------------------|------|------|
| Natural gas and electricity distribution, and management, planning and engineering services | Revenues          | 45   | 55   |
|   | Deferred revenues | 1    | 13   |
| Interest on long-term advances  | Interest income   | 7    | 12   |
| Long-term advances prepayment penalty fee   | Interest income   | 16   | -    |
| Purchase of natural gas   | Fuel costs        | 5    | 4    |
| Office services   | Other expenses    | 3    | 3    |

Affiliate companies are subsidiaries of the Company's parent or ultimate parent.

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### RELATED PARTY LOANS AND BALANCES

| Balances  | Recorded As  | 2019 | 2018 |
|---|--|------|------|
| Receivables from related parties <sup>(1)</sup> | Short-term advances to parent company                      | 70   | -    |
|   | Accounts receivable from parent company                    | -    | 7    |
|   | Accounts receivable from affiliate companies               | 14   | 32   |
| Long-term advances <sup>(2)</sup>               | Current portion of long-term advances to affiliate company | -    | 52   |
|   | Long-term advances to affiliate company                    | -    | 78   |
| Payables to related parties <sup>(1)</sup>      | Accounts payable to parent company                         | 24   | 35   |
|   | Accounts payable to affiliate companies                    | 4    | 7    |
| Equity preferred shares (Note 17)               | Equity preferred shares to parent company                  | 79   | 79   |

(1) 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.

(2) The effective interest rate on long-term advances, weighted by principal amounts outstanding, was 9.102 per cent in 2018. In 2019, the advances were settled, and a prepayment penalty fee on the early repayment of \$78 million was received. The repaid amounts were originally due from 2020 to 2023.

In the third quarter of 2019, the Company received settlements of \$130 million of long-term advances from Alberta Power (2000) Ltd., a subsidiary of the Company's parent. Of this amount, \$52 million matured in August 2019, and \$78 million was originally due to mature between 2020 and 2023. In accordance with the financing agreement with Alberta Power (2000) Ltd., the early settlement of the long-term advances resulted in a prepayment penalty fee of \$16 million that was recorded in interest income in the statements of earnings for year ended December 31, 2019.

## KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

|   | 2019 | 2018 |
|---|------|------|
| Salaries and short-term employee benefits | 6    | 6    |
| Retirement benefits                       | 2    | 1    |
| Share-based compensation                  | 5    | 1    |
|   | 13   | 8    |

Key management personnel comprise members of executive management and the Board, a total of 14 individuals (2018 - 15 individuals).

## 28. 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.

### 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 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 System 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.

## **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 other comprehensive income (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 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.

## **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, and contracted services. 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.

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   | 52 years            | 1.9%                      |
| Electricity distribution equipment     | 10 to 103 years | 51 years            | 2.0%                      |
| Gas transmission equipment             | 4 to 58 years   | 41 years            | 2.5%                      |
| Gas distribution plant and equipment   | 10 to 57 years  | 42 years            | 2.4%                      |
| Buildings                              | 10 to 50 years  | 35 years            | 2.8%                      |
| Other plant, equipment and machinery   | 1 to 50 years   | 18 years            | 5.5%                      |

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 74 and 98 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

### ***The Company as a lessee***

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company.

The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis. The cost of the right-of-use asset is based on the following:

- the amount of initial recognition of related lease liability;
- adjusted by any lease payments made on or before inception of the lease;
- increased by any initial direct costs incurred; and
- decreased by lease incentives received and any costs to dismantle the leased asset.

The lease term includes consideration of an option to extend or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option.

The payments related to short-term leases and low-value leases are recognized as other expenses over the lease term in the consolidated statements of earnings.

Prior to January 1, 2019, when the Company had purchased goods or services as a lessee, and the lease was an operating lease, rental payments were expensed on a straight-line basis over the life of the lease. Contingent rents were recognized in earnings in the period in which they were incurred. Contingent rent was that portion of lease payments that was not fixed in amount but varied based on a future factor, such as the amount of use or production.

### ***The Company as a lessor***

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.

## 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.

## **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 classified as 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 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.

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, the Company estimates credit loss allowances at initial recognition and throughout the life of the receivable.

### **RETIREMENT BENEFITS**

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2017.

The minimum funding requirements for the Group Plan are comprised of the contributions related to current service cost and the amortization of the unfunded liability as determined by the actuary. The Company does not have any liability to the Group Plan other than the minimum funding requirements of its subsidiaries. In the event of a withdrawal from the Group Plan or the termination of the Group Plan, the companies will still be required to contribute to the Group Plan where such contributions are required under pension regulations.

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in OPEB and non-registered group defined benefit pension plans. These plans are administered on a combined basis, and the Company accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit method and reflect management's best estimates of wage and salary increases, age at retirement and

expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period.

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.

For the non-registered defined benefit pension plans, the Company is assessed a percentage of the total cost of the plans.

For the non-registered defined benefit pension plan and the OPEB plans, gains and losses resulting from changes in assumptions, including the liability discount rate and future compensation rates, 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 non-registered 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 retirement benefits for registered defined benefit pension plans and 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. 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.

#### **RELATED PARTY TRANSACTIONS**

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

#### **FOREIGN CURRENCY TRANSLATION**

Transactions denominated in foreign currencies are translated at the exchange rate on the date of the transaction.

#### **ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

At December 31, 2019, there are no new or amended standards and interpretations that need to be adopted in future periods and will have a significant impact on the Company.