



CANADIAN UTILITIES LIMITED

An **ATCO** Company

CANADIAN UTILITIES LIMITED  
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 other financial information contained in the Company's Annual Report, and ensures that it is consistent with the consolidated financial statements.

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

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

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

[Original signed by 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 Owners of Canadian Utilities Limited

## OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canadian Utilities Limited and its subsidiaries (together, the Company) as at December 31, 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, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

[Original signed by "PricewaterhouseCoopers LLP"]

**PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Calgary, Alberta

February 26, 2020

# CONSOLIDATED STATEMENTS OF EARNINGS

		Year Ended December 31	
<i>(millions of Canadian Dollars except per share data)</i>	Note	2019	2018
<b>Revenues</b>	5	<b>3,905</b>	4,377
<b>Costs and expenses</b>			
Salaries, wages and benefits		(343)	(428)
Energy transmission and transportation		(203)	(179)
Plant and equipment maintenance		(265)	(235)
Fuel costs		(199)	(221)
Purchased power		(207)	(175)
Service concession arrangement costs		(127)	(664)
Depreciation and amortization	11,12,19	(582)	(638)
Franchise fees		(239)	(208)
Property and other taxes		(150)	(181)
Other	6	(312)	(324)
		<b>(2,627)</b>	<b>(3,253)</b>
<b>Proceeds from termination of Power Purchase Arrangement</b>	4	–	62
<b>Gain on sale of operations</b>	27	<b>174</b>	–
<b>Gain on sale of Barking Power assets</b>	11	–	125
<b>Earnings from investment in joint ventures</b>	29	<b>21</b>	24
<b>Operating profit</b>		<b>1,473</b>	1,335
Interest income		25	27
Interest expense	7	(487)	(496)
<b>Net finance costs</b>		<b>(462)</b>	(469)
<b>Earnings before income taxes</b>		<b>1,011</b>	866
<b>Income tax expense</b>	8	<b>(53)</b>	(225)
<b>Earnings for the year</b>		<b>958</b>	641
<b>Earnings attributable to:</b>			
Equity owners of the Company		951	634
Non-controlling interests	30	7	7
		<b>958</b>	641
<b>Earnings per Class A and Class B share</b>	9	<b>\$3.24</b>	\$2.08
<b>Diluted earnings per Class A and Class B share</b>	9	<b>\$3.24</b>	\$2.08

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31	
<i>(millions of Canadian Dollars)</i>	2019	2018
<b>Earnings for the year</b>	<b>958</b>	641
<b>Other comprehensive (loss) income, net of income taxes</b>		
<i>Items that will not be reclassified to earnings:</i>		
Re-measurement of retirement benefits <sup>(1)</sup>	17	(43)
<i>Items that are or may be reclassified subsequently to earnings:</i>		
Cash flow hedges <sup>(2)</sup>	1	(2)
Cash flow hedges reclassified to earnings <sup>(3)</sup>	8	8
Cash flow hedges reclassified to earnings as a result of sale of operations <sup>(4)</sup>	27	9
Foreign currency translation adjustment <sup>(5)</sup>	(41)	2
Foreign currency translation adjustment reclassified to earnings <sup>(5)</sup>	11	-
Share of other comprehensive loss of joint ventures <sup>(5)</sup>	29	-
	<b>(23)</b>	21
<b>Other comprehensive (loss) income</b>	<b>(66)</b>	16
<b>Comprehensive income for the year</b>	<b>892</b>	657
<b>Comprehensive income attributable to:</b>		
Equity owners of the Company	885	650
Non-controlling interests	7	7
	<b>892</b>	657

(1) Net of income taxes of \$13 million for the year ended December 31, 2019 (2018 - \$2 million).

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

(3) Net of income taxes of \$(3) million for the year ended December 31, 2019 (2018 - \$(3) million).

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

(5) Net of income taxes of nil.

See accompanying Notes to Consolidated Financial Statements.



# CONSOLIDATED BALANCE SHEETS

<i>(millions of Canadian Dollars)</i>	Note	December 31	
		2019	2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	22	977	599
Accounts receivable and contract assets	18	623	676
Finance lease receivables	19	8	15
Inventories	10	30	31
Restricted project funds		–	339
Receivable under service concession arrangement	13	–	67
Prepaid expenses and other current assets		76	129
		<b>1,714</b>	<b>1,856</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	17,212	17,259
Intangibles	12	629	630
Right-of-use assets	3,19	57	–
Investment in joint ventures	29	144	195
Finance lease receivables	19	167	380
Deferred income tax assets	8	66	69
Receivable under service concession arrangement	13	–	1,329
Other assets		55	101
<b>Total assets</b>		<b>20,044</b>	<b>21,819</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		536	845
Lease liabilities	3,19	9	–
Other current liabilities		36	120
Short-term debt	14	–	175
Long-term debt	15	158	485
Non-recourse long-term debt	16	–	20
		<b>739</b>	<b>1,645</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	8	1,302	1,380
Retirement benefit obligations	17	399	356
Customer contributions	18	1,720	1,798
Lease liabilities	3,19	49	–
Other liabilities		106	278
Long-term debt	15	8,808	8,419
Non-recourse long-term debt	16	–	1,381
<b>Total liabilities</b>		<b>13,123</b>	<b>15,257</b>
<b>EQUITY</b>			
Equity preferred shares	20	1,483	1,483
<b>Class A and Class B share owners' equity</b>			
Class A and Class B shares	21	1,228	1,226
Contributed surplus		16	15
Retained earnings		4,054	3,675
Accumulated other comprehensive loss		(47)	(24)
<b>Total equity attributable to equity owners of the Company</b>		<b>6,734</b>	<b>6,375</b>
<b>Non-controlling interests</b>	30	<b>187</b>	<b>187</b>
<b>Total equity</b>		<b>6,921</b>	<b>6,562</b>
<b>Total liabilities and equity</b>		<b>20,044</b>	<b>21,819</b>

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]  
 \_\_\_\_\_  
 DIRECTOR

[Original signed by J.W. Simpson]  
 \_\_\_\_\_  
 DIRECTOR

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Attributable to Equity Owners of the Company						Non-Controlling Interests	Total Equity
		Class A and Class B Shares	Equity Preferred Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total		
December 31, 2017		1,162	1,483	12	3,541	(45)	6,153	187	6,340
Earnings for the year		-	-	-	634	-	634	7	641
Other comprehensive income		-	-	-	-	16	16	-	16
Losses on retirement benefits transferred to retained earnings	17	-	-	-	(5)	5	-	-	-
Shares issued	21	63	-	-	-	-	63	-	63
Dividends	20,21	-	-	-	(495)	-	(495)	(7)	(502)
Share-based compensation	31	1	-	3	-	-	4	-	4
December 31, 2018		1,226	1,483	15	3,675	(24)	6,375	187	6,562
Earnings for the year		-	-	-	<b>951</b>	-	<b>951</b>	<b>7</b>	<b>958</b>
Other comprehensive loss		-	-	-	-	<b>(66)</b>	<b>(66)</b>	-	<b>(66)</b>
Losses on retirement benefits transferred to retained earnings	17	-	-	-	<b>(43)</b>	<b>43</b>	-	-	-
Shares issued	21	<b>3</b>	-	-	-	-	<b>3</b>	-	<b>3</b>
Dividends	20,21	-	-	-	<b>(529)</b>	-	<b>(529)</b>	<b>(7)</b>	<b>(536)</b>
Share-based compensation	31	<b>(1)</b>	-	<b>1</b>	-	-	-	-	-
December 31, 2019		<b>1,228</b>	<b>1,483</b>	<b>16</b>	<b>4,054</b>	<b>(47)</b>	<b>6,734</b>	<b>187</b>	<b>6,921</b>

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2019	2018
<b>Operating activities</b>			
Earnings for the year		958	641
Adjustments to reconcile earnings to cash flows from operating activities	22	839	1,141
Changes in non-cash working capital	22	(259)	(109)
Change in receivable under service concession arrangement		(180)	(803)
<b>Cash flows from operating activities</b>		<b>1,358</b>	870
<b>Investing activities</b>			
Additions to property, plant and equipment		(1,044)	(1,036)
Proceeds on disposal of property, plant and equipment		2	4
Proceeds on sale of Barking Power assets	11	-	219
Additions to intangibles		(68)	(100)
Acquisition, net of cash acquired	27	-	(70)
Proceeds on sale of operations, net of cash disposed	27	903	-
Proceeds on sale of ASHCOR, net of cash disposed	34	20	-
Investment in joint ventures		-	(6)
Changes in non-cash working capital	22	7	(69)
Other		8	(7)
<b>Cash flows used in investing activities</b>		<b>(172)</b>	(1,065)
<b>Financing activities</b>			
Net (repayment) issue of short-term debt	14	(175)	175
Issue of long-term debt	15	585	1,088
Release of restricted project funds		329	726
Repayment of long-term debt	15	(485)	(712)
Repayment of non-recourse long-term debt	16	(32)	(16)
Repayment of lease liabilities	19	(12)	-
Issue of Class A shares		3	1
Dividends paid on equity preferred shares	20	(67)	(67)
Dividends paid to non-controlling interests	30	(7)	(7)
Dividends paid to Class A and Class B share owners	21	(462)	(365)
Interest paid		(478)	(477)
Other		13	21
<b>Cash flows (used in) from financing activities</b>		<b>(788)</b>	367
<b>Increase in cash position <sup>(1)</sup></b>		<b>398</b>	172
Foreign currency translation		(20)	9
Beginning of year		599	418
<b>End of year</b>	22	<b>977</b>	599

(1) Cash position includes \$4 million which is not available for general use by the Company (2018 - \$54 million).

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**

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

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

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

The consolidated financial statements include the accounts of Canadian Utilities Limited and its subsidiaries (see Note 28), and the accounts of a proportionate share of the Company's investment in joint operations and joint ventures (see Note 29). In these financial statements, "the Company" means Canadian Utilities Limited, its subsidiaries and joint arrangements.

## **2. BASIS OF PRESENTATION**

### **STATEMENT OF COMPLIANCE**

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

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 26, 2020.

### **BASIS OF MEASUREMENT**

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 35.

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 26.

### 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 \$67 million of right-of-use assets and \$67 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, 2018, as previously reported	IFRS 16 re- measurement adjustments on January 1, 2019	Restated
<b>ASSETS</b>				
<b>Non-current assets</b>				
Right-of-use assets	19	–	67	67
<b>Total assets</b>		21,819	67	21,886
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Lease liabilities	19	–	11	11
<b>Non-current liabilities</b>				
Lease liabilities	19	–	56	56
<b>Total liabilities</b>		15,257	67	15,324
<b>EQUITY</b>				
Equity preferred shares		1,483	–	1,483
<b>Class A and Class B share owners' equity</b>				
Class A and Class B shares		1,226	–	1,226
Contributed surplus		15	–	15
Retained earnings		3,675	–	3,675
Accumulated other comprehensive loss		(24)	–	(24)
<b>Total equity attributable to equity owners of the Company</b>		6,375	–	6,375
<b>Non-controlling interests</b>		187	–	187
<b>Total equity</b>		6,562	–	6,562
<b>Total liabilities and equity</b>		21,819	67	21,886

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	138
Adjustment to reflect discounting of the operating lease commitments at December 31, 2018, using the weighted average incremental borrowing rate	(17)
Lease liabilities at January 1, 2019, before exemptions and other adjustments	121
Exemptions applied upon recognition of lease liabilities:	
Short-term leases	(1)
Contracts not meeting the definition of a lease <sup>(1)</sup>	(55)
Recognition of the lease term extension option <sup>(2)</sup>	2
Lease liabilities recognized at January 1, 2019	67

(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, ATCO Power (2010) (in 2019, the Company sold its Canadian fossil fuel-based electricity generation portfolio, see Note 27), Alberta PowerLine (before sale of operations, see Note 27), and ATCO Power Australia. Together these businesses provide electricity generation, transmission, distribution and related infrastructure solutions in Alberta, Ontario, the Yukon, the Northwest Territories, Australia and Mexico.
<b>Pipelines &amp; Liquids</b>	The Pipelines & Liquids segment includes ATCO Gas, ATCO Pipelines, ATCO Gas Australia, and ATCO Energy Solutions. These businesses provide integrated natural gas transmission, distribution and storage, industrial water solutions and related infrastructure development throughout Alberta, the Lloydminster area of Saskatchewan, Western Australia and Mexico.
<b>Corporate &amp; Other</b>	Canadian Utilities Limited Corporate & Other includes intersegment eliminations and ATCO Energy, a retail electricity and natural gas business in Alberta.

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

	2019				
2018	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	<b>2,146</b>	<b>1,588</b>	<b>171</b>	-	<b>3,905</b>
	2,841	1,415	121	-	4,377
Revenues - intersegment	<b>9</b>	<b>61</b>	<b>37</b>	<b>(107)</b>	-
	17	55	41	(113)	-
Revenues	<b>2,155</b>	<b>1,649</b>	<b>208</b>	<b>(107)</b>	<b>3,905</b>
	2,858	1,470	162	(113)	4,377
Operating expenses <sup>(1)</sup>	<b>(1,030)</b>	<b>(924)</b>	<b>(199)</b>	<b>108</b>	<b>(2,045)</b>
	(1,671)	(860)	(196)	112	(2,615)
Depreciation and amortization	<b>(317)</b>	<b>(258)</b>	<b>(15)</b>	<b>8</b>	<b>(582)</b>
	(386)	(254)	(7)	9	(638)
Proceeds from termination of Power Purchase Arrangement	-	-	-	-	-
	62	-	-	-	62
Gain on sale of Barking Power assets (Note 11)	-	-	-	-	-
	125	-	-	-	125
Gain on sale of operations (Note 27)	<b>174</b>	-	-	-	<b>174</b>
	-	-	-	-	-
Earnings from investment in joint ventures	<b>9</b>	<b>12</b>	-	-	<b>21</b>
	15	9	-	-	24
Net finance costs	<b>(310)</b>	<b>(156)</b>	<b>4</b>	-	<b>(462)</b>
	(322)	(156)	11	(2)	(469)
Earnings (loss) before income taxes	<b>681</b>	<b>323</b>	<b>(2)</b>	<b>9</b>	<b>1,011</b>
	681	209	(30)	6	866
Income tax (expense) recovery	<b>(30)</b>	<b>(12)</b>	-	<b>(11)</b>	<b>(53)</b>
	(176)	(59)	12	(2)	(225)
Earnings (loss) for the year	<b>651</b>	<b>311</b>	<b>(2)</b>	<b>(2)</b>	<b>958</b>
	505	150	(18)	4	641
Adjusted earnings (loss)	<b>424</b>	<b>261</b>	<b>(77)</b>	-	<b>608</b>
	434	247	(74)	-	607
Total assets	<b>11,411</b>	<b>8,195</b>	<b>516</b>	<b>(78)</b>	<b>20,044</b>
	13,494	7,842	574	(91)	21,819
Capital expenditures <sup>(2)</sup>	<b>446</b>	<b>677</b>	<b>6</b>	-	<b>1,129</b>
	497	643	16	-	1,156

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

(2) Includes additions to property, plant and equipment and intangibles and \$16 million of interest capitalized during construction for the year ended December 31, 2019 (2018 - \$20 million).

## GEOGRAPHIC SEGMENTS

Financial information by geographic area is summarized below.

### Revenues - external

	2019	2018
Canada	<b>3,712</b>	4,173
Australia	<b>171</b>	189
Other	<b>22</b>	15
Total	<b>3,905</b>	4,377



## Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets <sup>(1)</sup>		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Canada	15,866	15,919	613	611	201	247	16,680	16,777
Australia	1,167	1,204	14	18	25	31	1,206	1,253
Other	179	136	2	1	3	11	184	148
Total	17,212	17,259	629	630	229	289	18,070	18,178

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

## ADJUSTED EARNINGS

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

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

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

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

2019					
2018	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings (loss)	424	261	(77)	–	608
	434	247	(74)	–	607
Gain on sale of operations ( <i>Note 27</i> )	125	–	–	–	125
	–	–	–	–	–
Restructuring and other costs	–	–	–	–	–
	(36)	(19)	(5)	–	(60)
Proceeds from termination of Power Purchase Arrangement	–	–	–	–	–
	36	–	–	–	36
Sale of Barking Power assets ( <i>Note 11</i> )	–	–	–	–	–
	87	–	–	–	87
Unrealized (losses) gains on mark-to-market forward and swap commodity contracts	(14)	5	14	–	5
	31	–	–	–	31
Rate-regulated activities	121	62	–	(2)	181
	(55)	(82)	–	4	(133)
IT Common Matters decision	(12)	(11)	–	–	(23)
	–	–	–	–	–
Dividends on equity preferred shares of Canadian Utilities Limited	3	2	62	–	67
	4	2	61	–	67
Other	–	(11)	(1)	–	(12)
	–	(1)	–	–	(1)
Earnings (loss) attributable to equity owners of the Company	647	308	(2)	(2)	951
	501	147	(18)	4	634
Earnings attributable to non-controlling interests					7
					7
Earnings for the year					958
					641

### ***Gain on sale of operations***

In 2019, the Company closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine (see Note 27). These sales resulted in an aggregate gain of \$174 million (\$125 million after-tax). As the sale of operations is not in the normal course of business, the related gain on sale of operations has been excluded from adjusted earnings.

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

In 2018, restructuring and other costs not in the normal course of business of \$60 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.

### ***Proceeds from termination of Power Purchase Arrangement***

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

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

### ***Sale of Barking Power assets***

In December 2018, the Company sold its 100 per cent ownership interests in Thames Power Services Limited and Barking Power Limited. The Company recorded a gain on sale of the Barking Power assets of \$125 million before tax (see Note 11) (\$100 million after-tax). Of the \$100 million after-tax gain, \$87 million was excluded from Adjusted Earnings.

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

Prior to the sale of Canadian fossil fuel-based electricity generation portfolio (see Note 27), the Company entered into forward contracts in order to optimize available merchant capacity and manage exposure to electricity market price movements for its Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. The forward contracts were measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts were recognized in the earnings of the Electricity operating segment where hedge accounting was not applied.

In addition, the Company's retail electricity and natural gas business in Alberta enters into fixed-price swap commodity contracts to manage exposure to electricity and natural gas prices and volumes. Prior to the sale of the Canadian fossil fuel-based electricity generation portfolio (see Note 27), these contracts were accounted for as normal purchase agreements as they were with an affiliate company and the own use exemption was applied. Starting September 30, 2019, these contracts are measured at fair value because the contracts are with a third party and the own use exemption no longer applies. Unrealized gains and losses due to changes in the fair value of the fixed-price swap commodity contracts are recognized in the earnings of the Corporate & Other segment.

The CODM believes that removal of the unrealized gains or losses on mark-to-market forward and swap commodity contracts provides a better representation of operating results for the Company's operations.

Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

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

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

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

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

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

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

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>	(103)	(105)
Deferred income taxes due to decrease in provincial corporate income tax <sup>(4)</sup>	203	-
Impact of inflation on rate base <sup>(5)</sup>	(13)	(17)
<i>Regulatory decisions received (see below)</i>	6	-
<i>Settlement of regulatory decisions and other items <sup>(6)</sup></i>	10	(97)
	<b>181</b>	<b>(133)</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 \$203 million.

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

(6) 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.

<b>Decision</b>	<b>Amount</b>	<b>Description</b>
1. Information Technology (IT) Common Matters	23	<p>In August 2014, the Company 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. The decision was received 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, the Company 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, the Company 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 Company'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.

### **Other**

For the year ended December 31, 2019, the Company has recognized costs of \$12 million relating to a number of disputes related to the Tula Pipeline project. The Company continues to work with the involved parties to achieve a resolution of these disputes. As these costs relate to a significant non-recurring event, they are excluded from adjusted earnings.

In addition, each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. For the year ended December 31, 2019 a foreign exchange gain of \$1 million (2018 - a foreign exchange loss of \$1 million) was recorded due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

## 5. REVENUES

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

2019				
2018	Electricity	Pipelines & Liquids	Corporate & Other	Total
<b>Revenue Streams</b>				
<b>Sale of Goods</b>				
Electricity generation and delivery	412	-	-	412
	526	-	-	526
Commodity sales	18	18	-	36
	19	13	-	32
Total sale of goods	430	18	-	448
	545	13	-	558
<b>Rendering of Services</b>				
Distribution services	589	988	-	1,577
	567	905	-	1,472
Transmission services	674	278	-	952
	622	245	-	867
Customer contributions	47	19	-	66
	47	18	-	65
Franchise fees	32	207	-	239
	25	183	-	208
Retail electricity and natural gas services	-	-	162	162
	-	-	114	114
Storage and industrial water	-	23	-	23
	-	47	-	47
Total rendering of services	1,342	1,515	162	3,019
	1,261	1,398	114	2,773
<b>Lease income</b>				
Finance lease	21	-	-	21
	35	-	-	35
Operating lease	65	-	-	65
	172	-	-	172
Total lease income	86	-	-	86
	207	-	-	207
<b>Service concession arrangement</b>				
	232	-	-	232
	803	-	-	803
<b>Other</b>				
	56	55	9	120
	25	4	7	36
<b>Total</b>	<b>2,146</b>	<b>1,588</b>	<b>171</b>	<b>3,905</b>
	2,841	1,415	121	4,377

Disaggregation of revenues by rate-regulated and non-rate-regulated business operations for the year ended December 31 is shown below:

	2019	2018
<b>Rate-regulated business operations</b>		
<b>Rate-regulated Electricity</b>		
Electricity Distribution	662	624
Electricity Transmission	712	640
	<b>1,374</b>	1,264
<b>Rate-regulated Pipelines &amp; liquids</b>		
Natural Gas Distribution	1,072	935
Natural Gas Transmission	295	252
International Natural Gas Distribution	152	168
	<b>1,519</b>	1,355
<b>Total rate-regulated business operations</b>	<b>2,893</b>	2,619
<b>Non-rate-regulated business operations</b>		
<b>Non-rate-regulated Electricity</b>		
Independent Power Plants	208	318
Thermal PPA Plants	262	418
International Power Generation	40	33
Alberta PowerLine	232	803
	<b>742</b>	1,572
<b>Non-rate-regulated Pipelines &amp; liquids</b>		
Storage and Industrial Water	23	47
	<b>23</b>	47
<b>Other non-rate-regulated business operations</b>		
Retail Electricity and Natural Gas Services	162	114
Other	85	25
	<b>247</b>	139
<b>Total non-rate-regulated business operations</b>	<b>1,012</b>	1,758
<b>Total</b>	<b>3,905</b>	4,377

#### **Remaining performance obligations**

The Company is party to performance obligations, which have a duration of more than one year, are not subject to the Right-to-Invoice practical expedient, and do not include variable consideration which is constrained (remaining performance obligations). At December 31, 2019, the most significant remaining performance obligations are as follows:

- (i) the Company's 35-year service agreement to operate Fort McMurray 500 kV Transmission project (see Note 13) that amounts to \$0.8 billion. The Company expects that approximately 2 per cent of the amount will be recognized as revenue during the year ending December 31, 2020, subject to satisfaction of related performance obligations; and
- (ii) provision of storage and industrial water services over the life of a contract that in aggregate approximates \$0.3 billion. The Company expects that approximately 5 per cent of the amount will be recognized as revenue during the year ending December 31, 2020.

## 6. OTHER COSTS AND EXPENSES

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

## 7. INTEREST EXPENSE

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

	2019	2018
Long-term debt	407	412
Non-recourse long-term debt	57	60
Retirement benefits net interest expense	14	13
Amortization of deferred financing charges	5	5
Short-term debt	6	11
Interest expense on lease liabilities (Note 19)	2	-
Other	12	15
	503	516
Less: interest capitalized (Notes 11,12)	(16)	(20)
	487	496

Borrowing costs capitalized to property, plant and equipment during 2019 were calculated by applying a weighted average interest rate of 4.54 per cent (2018 - 4.70 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>		
Canada	60	64
Mexico	2	-
Change in income taxes resulting from decrease in provincial corporate tax rate	(1)	-
Adjustment in respect of prior years	3	(4)
	<b>64</b>	60
<b>Deferred income tax expense</b>		
Reversal of temporary differences	201	163
Change in income taxes resulting from decrease in provincial corporate tax rate	(210)	(1)
Adjustment in respect of prior years	(2)	3
	<b>(11)</b>	165
	<b>53</b>	225

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

	2019		2018	
Earnings before income taxes	1,011	%	866	%
Income taxes, at statutory rates	268	26.5	234	27.0
Change in income taxes resulting from decrease in provincial corporate tax rate	(211)	(20.9)	-	-
Statutory and deferred tax rate variance	(9)	(0.9)	-	-
International financing	-	-	(5)	(0.6)
Equity earnings	(3)	(0.3)	(2)	(0.2)
Unrecognized deferred income tax assets	6	0.6	4	0.5
Non-taxable gains	(2)	(0.2)	(6)	(0.7)
Tax cost of preferred share financings	2	0.2	2	0.2
Other	2	0.2	(2)	(0.2)
	<b>53</b>	<b>5.2</b>	225	26.0

## 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	30	45
Deferred	Deferred income tax assets	66	69
		<b>96</b>	114
<b>Income tax liabilities</b>			
Current	Other current liabilities	13	35
Deferred	Deferred income tax liabilities	1,302	1,380
		<b>1,315</b>	1,415

## DEFERRED INCOME TAXES

The changes in deferred income tax assets are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2017	28	(2)	42	14	–	2	84
(Charge) credit to earnings	(14)	(1)	(8)	7	–	1	(15)
December 31, 2018	14	(3)	34	21	–	3	69
(Charge) credit to earnings	<b>(4)</b>	<b>1</b>	<b>(1)</b>	<b>21</b>	<b>3</b>	<b>3</b>	<b>23</b>
Credit to other comprehensive income	–	–	–	–	<b>14</b>	–	<b>14</b>
Change in income taxes resulting from decrease in provincial corporate tax rate	–	–	<b>(3)</b>	<b>(3)</b>	–	–	<b>(6)</b>
Business combinations	<b>7</b>	<b>1</b>	<b>(33)</b>	–	<b>(7)</b>	–	<b>(32)</b>
Foreign exchange adjustment	<b>(1)</b>	–	–	–	–	–	<b>(1)</b>
Other	–	–	–	–	–	<b>(1)</b>	<b>(1)</b>
December 31, 2019	<b>16</b>	<b>(1)</b>	<b>(3)</b>	<b>39</b>	<b>10</b>	<b>5</b>	<b>66</b>

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

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2017	1,361	98	(58)	(78)	(126)	32	1,229
Charge (credit) to earnings	159	10	11	(19)	(7)	(4)	150
Charge (credit) to other comprehensive income	–	–	2	–	(2)	–	–
Business combinations	(4)	10	–	(2)	–	–	4
Foreign exchange adjustment	(1)	–	–	–	–	–	(1)
Other	1	(1)	(2)	(1)	–	1	(2)
December 31, 2018	1,516	117	(47)	(100)	(135)	29	1,380
Charge (credit) to earnings	<b>216</b>	<b>(2)</b>	<b>(22)</b>	<b>20</b>	<b>8</b>	<b>2</b>	<b>222</b>
Charge (credit) to other comprehensive income	–	–	<b>6</b>	–	<b>1</b>	–	<b>7</b>
Change in income taxes resulting from decrease in provincial corporate tax rate	<b>(220)</b>	<b>(18)</b>	<b>6</b>	<b>6</b>	<b>15</b>	<b>(5)</b>	<b>(216)</b>
Business combinations	<b>(109)</b>	<b>(2)</b>	<b>46</b>	<b>4</b>	<b>(14)</b>	<b>(14)</b>	<b>(89)</b>
Foreign exchange adjustment	<b>(4)</b>	–	–	–	–	–	<b>(4)</b>
Other	–	–	–	–	–	<b>2</b>	<b>2</b>
December 31, 2019	<b>1,399</b>	<b>95</b>	<b>(11)</b>	<b>(70)</b>	<b>(125)</b>	<b>14</b>	<b>1,302</b>

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 \$430 million of non-capital tax losses and credits which expire between 2025 and 2039 and \$38 million of tax losses and credits which do not expire. The Company recognized deferred income tax assets of \$109 million for losses and credits that expire.

## 9. EARNINGS PER SHARE

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

The earnings and average number of shares used to calculate earnings per share for the year ended December 31 are as follows:

	2019	2018
<b>Average shares</b>		
Weighted average shares outstanding	272,629,638	271,464,390
Effect of dilutive stock options	30,596	33,220
Effect of dilutive MTIP	551,192	568,528
Weighted average dilutive shares outstanding	273,211,426	272,066,138
<b>Earnings for earnings per share calculation</b>		
Earnings for the year	958	641
Dividends on equity preferred shares of the Company	(67)	(67)
Dividends to non-controlling interests	(7)	(7)
Earnings attributable to Class A and B shares	884	567
<b>Earnings and diluted earnings per Class A and Class B share</b>		
Earnings per Class A and Class B share	\$3.24	\$2.08
Diluted earnings per Class A and Class B share	\$3.24	\$2.08

## 10. INVENTORIES

Inventories at December 31 are comprised of:

	2019	2018
Natural gas and fuel in storage	21	13
Raw materials and consumables	8	18
Finished goods	1	-
	30	31

For the year ended December 31, 2019, inventories recognized as an expense were \$63 million (2018 - \$78 million).

## 11. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission & Distribution	Electricity Generation	Land and Buildings	Construction Work-in- Progress	Other	Total
<b>Cost</b>						
December 31, 2017	18,465	1,869	786	609	1,004	22,733
Additions	67	13	12	956	28	1,076
Transfers	879	1	10	(915)	25	-
Retirements and disposals	(72)	(35)	(105)	(1)	(16)	(229)
Acquisition of EGO (Note 27)	-	87	-	-	1	88
Changes to asset retirement costs	-	7	-	-	-	7
Foreign exchange rate adjustment	(24)	8	-	12	-	(4)
December 31, 2018	19,315	1,950	703	661	1,042	23,671
Additions	53	11	23	1,026	6	1,119
Transfers	874	10	13	(922)	25	-
Retirements and disposals	(87)	(27)	(16)	(15)	(18)	(163)
Sale of operations <sup>(1)</sup>	-	(1,801)	(13)	(21)	(21)	(1,856)
Sale of ASHCOR Technologies Ltd. (Note 34)	-	-	-	(21)	-	(21)
Foreign exchange rate adjustment	(72)	(1)	(2)	(9)	(3)	(87)
December 31, 2019	20,083	142	708	699	1,031	22,663
<b>Accumulated depreciation</b>						
December 31, 2017	4,016	1,305	147	77	402	5,947
Depreciation	444	57	20	-	56	577
Retirements and disposals	(72)	(30)	(4)	-	(15)	(121)
Foreign exchange rate adjustment	(4)	6	-	7	-	9
December 31, 2018	4,384	1,338	163	84	443	6,412
Depreciation	434	32	19	-	58	543
Retirements and disposals	(86)	(18)	(16)	-	(18)	(138)
Sale of operations <sup>(1)</sup>	-	(1,335)	-	-	(13)	(1,348)
Foreign exchange rate adjustment	(12)	-	-	(4)	(2)	(18)
December 31, 2019	4,720	17	166	80	468	5,451
<b>Net book value</b>						
December 31, 2018	14,931	612	540	577	599	17,259
December 31, 2019	15,363	125	542	619	563	17,212

(1) In the second quarter of 2019, as a result of the announced sale of the Canadian fossil fuel-based electricity generation portfolio, property, plant and equipment with a net book value of \$508 million was reclassified as held for sale. The sale of operations transactions closed in the second half of 2019 (Note 27).

The additions to property, plant and equipment included \$15 million of interest capitalized during construction for the year ended December 31, 2019 (2018 - \$18 million).

### SALE OF BARKING POWER ASSETS

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

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

Sale of Barking Power assets proceeds	219
Cost of sale of Barking Power assets, net of liabilities <sup>(1)</sup>	(90)
Reversal of unused amounts of related asset retirement obligation included in other liabilities	16
Loss on reclassification of the cumulative foreign currency translation adjustment	(15)
Costs of disposal	(5)
<b>Gain on sale of Barking Power assets</b>	<b>125</b>

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

## 12. 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	611	346	27	984
Additions	58	25	-	83
Acquisition of EGO (Note 27)	-	-	34	34
Retirements	(3)	-	-	(3)
December 31, 2018	666	371	61	1,098
Additions	50	18	-	68
Sale of operations <sup>(1)</sup>	(25)	-	(10)	(35)
Retirements	(116)	-	(2)	(118)
Foreign exchange rate adjustment	(1)	-	-	(1)
December 31, 2019	574	389	49	1,012
<b>Accumulated amortization</b>				
December 31, 2017	371	43	7	421
Amortization	43	5	2	50
Retirements	(3)	-	-	(3)
December 31, 2018	411	48	9	468
Amortization	42	5	1	48
Sale of operations <sup>(1)</sup>	(15)	-	(2)	(17)
Retirements	(116)	-	-	(116)
December 31, 2019	322	53	8	383
<b>Net book value</b>				
December 31, 2018	255	323	52	630
December 31, 2019	252	336	41	629

(1) In the second quarter of 2019, as a result of the announced sale of the Canadian fossil fuel-based electricity generation intangible assets with a net book value of \$18 million were reclassified as held for sale. The sale of operations transactions closed in the second half of 2019 (Note 27).

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

### **13. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT**

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

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

Construction commenced in 2017 and the Transmission Project went into service on March 29, 2019.

In October 2017, APL issued non-recourse long-term debt to fund the Transmission Project activities (see Note 16).

On June 24, 2019, the Company announced that it had entered into agreements to sell its entire ownership interest in APL. At that time, the Company classified the assets and liabilities of the APL disposal group, including the receivable under service concession arrangement, as assets held for sale. The transaction closed on December 18, 2019 (see Note 27).

Revenues, service concession arrangement costs and operating profit for the year ended December 31, 2019, are \$232 million, \$127 million and \$105 million, respectively (2018 - \$803 million, \$664 million and \$139 million).

### **14. SHORT-TERM DEBT**

At December 31, 2019, the Company had no commercial paper outstanding (2018 - \$175 million of commercial paper outstanding at a weighted average effective interest rate of 2.25 per cent, matured in January 2019).

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

## 15. 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
Canadian Utilities Limited debentures - unsecured, 3.122% due November 2022	3.187%	200	200
ATCO Power Australia credit facility, payable in Australian dollars, at BBSY Rates, due February 2020, secured by a pledge of project assets and contracts, \$63 million AUD (2018 - \$69 million AUD) <sup>(3)</sup>	Floating <sup>(4)</sup>	58	66
ATCO Gas Australia revolving credit facility, payable in Australian dollars, at BBSY rates, due July 2021, \$275 million AUD (2018 - \$275 million AUD) <sup>(3)</sup>	Floating <sup>(4)</sup>	250	264
ATCO Gas Australia revolving credit facility, payable in Australian dollars, at BBSY rates, due July 2023, \$405 million AUD (2018 - \$400 million AUD) <sup>(3)</sup>	Floating <sup>(4)</sup>	369	385
Electricidad del Golfo credit facility, payable in Mexican pesos, at Mexican Interbank rates, due March 2023, \$570 million MXP (2018 - \$570 million MXP)	Floating <sup>(4)</sup>	39	39
Less: deferred financing charges		(46)	(45)
		8,966	8,904
Less: amounts due within one year		(158)	(485)
		8,808	8,419

BBSY - Bank Bill Swap Benchmark Rate

- (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.
- (3) During 2019, the above interest rates had additional margin fees at a weighted average rate of 0.94 per cent (2018 - 1.11 per cent). The margin fees are subject to escalation.
- (4) Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 23).

### DEBENTURE ISSUANCES AND REPAYMENTS

On September 5, 2019, CU Inc. 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).

CU Inc. 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.

### OTHER LONG TERM DEBT ISSUANCES AND REPAYMENTS

#### **ATCO Gas Australia re-financing**

In July 2018, as part of a re-financing, the Company's subsidiary, ATCO Gas Australia Limited Partnership, repaid in full the outstanding balance of its two credit facilities in the amount of \$658 million (\$677 million Australian dollars). ATCO Gas Australia then entered into a new syndicated loan facility, consisting of two tranches. The first tranche is a \$275 million Australian dollars revolving credit facility, maturing in July 2021, at the Australia bank bill swap benchmark rate (BBSY) plus an applicable margin. This tranche was fully drawn at December 31, 2019. The second tranche is a \$450 million Australian dollars revolving credit facility, maturing in July 2023, at BBSY rates plus a margin. \$369 million (\$405 million Australian dollars) was borrowed under this tranche at December 31, 2019. The floating BBSY interest rates are hedged to December 31, 2024 with an interest rate swap agreement which fixes the interest rate at 0.9708% (see Note 23).

#### **Electricidad del Golfo credit facility**

On February 20, 2018, the Company assumed \$42 million of long-term debt on acquisition of Electricidad del Golfo (EGO) (see Note 27). On March 20, 2018, the Company issued additional long-term debt of \$40 million under a fixed-term credit facility, at Mexican interbank rates maturing in March 2023, that was used to fund the retirement of

EGO's long-term debt with its Mexican counterparty. To mitigate the variable interest rate risk, the Company entered into interest rate swap agreements to fix the interest rate at 8.77 per cent for the fixed-term facility (see Note 27).

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

#### PLEGGED ASSETS

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

At December 31, 2019, the book value of assets pledged to maintain the Company's long-term credit facilities was \$101 million (2018 - \$112 million).

## 16. NON-RECOURSE LONG-TERM DEBT

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

Project Financing	Effective Interest Rate	2019	2018
<b>ATCO Power:</b>			
Joffre notes, at fixed rate of 8.590%, due to 2020	8.950%	–	9
Scotford notes, at fixed rate of 7.930%, due to 2022	8.240%	–	12
Muskeg River notes, at fixed rate of 7.560%, due to 2022	7.840%	–	9
Cory:			
Notes, at fixed rate of 7.586%, due to 2025	7.870%	–	20
Notes, at fixed rate of 7.601%, due to 2026	7.890%	–	19
<b>Alberta PowerLine:</b>			
Series A Bonds, at fixed rate of 4.065%, due to 2053	4.277%	–	549
Series B Bonds, at fixed rate of 4.065%, due to 2054	4.274%	–	548
Series C Bonds, at fixed rate of 3.351%, due to 2032	3.690%	–	144
Series D Bonds, at fixed rate of 3.340%, due to 2032	3.679%	–	144
<b>Less: deferred financing charges</b>		–	(53)
		–	1,401
Less: amounts due within one year		–	(20)
		–	1,381

#### SALE OF OPERATIONS

Following the announcement of agreements to sell the Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine, the Company included \$1,394 million of non-recourse long-term debt in liabilities of the disposal groups classified as held for sale at June 30, 2019. Subsequently, the Company assumed \$18 million of ATCO Power's non-recourse long-term debt previously classified in liabilities of the disposal group, and repaid this balance in September 2019. The Company also made scheduled payments of \$5 million on the Alberta PowerLine non-recourse long-term debt. The remaining \$1,371 million of non-recourse long-term debt was included in net assets of the operations sold (Note 27).

The Company's total repayment towards non-recourse long-term debt during the year ended December 31, 2019, was \$32 million.



## 17. RETIREMENT BENEFITS

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

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

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

### BENEFIT PLAN ASSETS, OBLIGATIONS AND FUNDED STATUS

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

	2019		2018	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Market value of plan assets</b>				
Beginning of year	2,589	-	2,693	-
Interest income	93	-	93	-
Employee contributions	1	-	1	-
Employer contributions	20	-	20	-
Benefit payments	(123)	-	(116)	-
Return on plan assets, excluding amounts included in interest income	239	-	(102)	-
End of year	2,819	-	2,589	-
<b>Accrued benefit obligations</b>				
Beginning of year	2,831	114	2,918	115
Current service cost	18	2	23	2
Interest cost	103	4	102	4
Employee contributions	1	-	1	-
Benefit payments from plan assets	(123)	-	(116)	-
Benefit payments by employer	(6)	(4)	(6)	(3)
Curtailement gain <sup>(1)</sup>	(10)	(2)	-	-
Past service credit <sup>(2)</sup>	(5)	-	-	-
Actuarial losses (gains)	288	7	(91)	(4)
End of year <sup>(3)</sup>	3,097	121	2,831	114
<b>Funded status</b>				
Net retirement benefit obligations	278	121	242	114

(1) In 2019, as a result of a reduction of plan members due to the sale of the Canadian fossil fuel-based electricity generation portfolio (see Note 27), the Company recorded a curtailment gain of \$12 million. This gain is included in salaries, wages and benefits expense in the consolidated statements of earnings.

(2) In 2019, as a result of amendments to the non-registered, non-funded defined benefit pension plans, the Company recognized \$5 million of past service credit. The past service credit is included in salaries, wages and benefits expense in the consolidated statements of earnings.

(3) The non-registered, non-funded defined benefit pension plans accrued benefit obligations increased to \$146 million at December 31, 2019 due to a decrease in the liability discount rate and experience adjustments (2018 - decreased to \$136 million due to an increase in the liability discount rate and experience adjustments).

## BENEFIT PLAN COST

The components of benefit plan cost are as follows:

	2019		2018	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Current service cost	18	2	23	2
Interest cost	103	4	102	4
Interest income	(93)	–	(93)	–
Curtailement gain	(10)	(2)	–	–
Past service credit	(5)	–	–	–
Defined benefit plans cost	13	4	32	6
Defined contribution plans cost	26	–	27	–
Total cost	39	4	59	6
Less: capitalized	20	3	27	3
Net cost recognized	19	1	32	3

## RE-MEASUREMENT OF RETIREMENT BENEFITS

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

	2019		2018	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Gains (losses) on plan assets from:</b>				
Return on plan assets, excluding amounts included in net interest expense	239	–	(102)	–
<b>(Losses) gains on plan obligations from:</b>				
Changes in financial assumptions	(288)	(7)	72	3
Experience adjustments	–	–	19	1
	(288)	(7)	91	4
<b>(Losses) gains recognized in other comprehensive income <sup>(1)</sup></b>	<b>(49)</b>	<b>(7)</b>	<b>(11)</b>	<b>4</b>

(1) Losses net of income taxes were \$43 million for the year ended December 31, 2019 (2018 - \$5 million).

## PLAN ASSETS

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

Plan asset mix	2019				2018			
	Quoted	Un-quoted	Total	%	Quoted	Un-quoted	Total	%
Equity securities								
Public								
Canada	6	-	6		130	-	130	
United States	310	-	310		191	-	191	
International	215	-	215		144	-	144	
Private	-	10	10		-	11	11	
	<b>531</b>	<b>10</b>	<b>541</b>	<b>19</b>	<b>465</b>	<b>11</b>	<b>476</b>	<b>18</b>
Fixed income securities								
Government bonds	1,109	-	1,109		1,056	-	1,056	
Corporate bonds and debentures	658	-	658		670	-	670	
Securitized assets	118	-	118		40	-	40	
Mortgages	-	118	118		-	54	54	
	<b>1,885</b>	<b>118</b>	<b>2,003</b>	<b>71</b>	<b>1,766</b>	<b>54</b>	<b>1,820</b>	<b>70</b>
Real estate								
Land and building <sup>(1)</sup>	-	28	28		-	29	29	
Real estate funds	-	203	203		-	195	195	
	-	<b>231</b>	<b>231</b>	<b>8</b>	-	<b>224</b>	<b>224</b>	<b>9</b>
Cash and other assets								
Cash	16	-	16		11	-	11	
Short-term notes and money market funds	25	-	25		48	-	48	
Accrued interest and dividends receivable	3	-	3		10	-	10	
	<b>44</b>	-	<b>44</b>	<b>2</b>	<b>69</b>	-	<b>69</b>	<b>3</b>
	<b>2,460</b>	<b>359</b>	<b>2,819</b>	<b>100</b>	<b>2,300</b>	<b>289</b>	<b>2,589</b>	<b>100</b>

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

At December 31, 2018, plan assets included holdings of Class A shares of the Company and Class I Non-Voting Shares of ATCO Ltd., with the market values of \$5 million and \$6 million, respectively. In 2019, these holdings were sold.

## FUNDING

In 2018, an actuarial valuation for funding purposes as of December 31, 2017 was completed for the registered defined benefit pension plans. The estimated contribution for 2020 is \$18 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2020.

## WEIGHTED AVERAGE ASSUMPTIONS

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

	2019		2018	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Benefit plan cost</b>				
Discount rate for the year <sup>(1)</sup>	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>(2)</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 discount rate assumption for the year was 3.80 per cent up to September 30, 2019, at which time there was a plan curtailment due to the sale of the Canadian fossil fuel-based electricity generation portfolio (see Note 27). The discount rate assumption for the period from October 1, 2019 to December 31, 2019, was 3.00 per cent.

(2) 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.

The weighted average duration of the defined benefit obligation is 13.2 years.

## RISKS

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

### Investment risk

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

### Interest rate risk

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

### Compensation risk

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

### Inflation risk

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

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

### Life expectancy

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

## SENSITIVITIES

The 2019 sensitivities of key assumptions used in measuring the Company's pension and OPEB plans are as follows:

Assumption	Per cent Change	Accrued Benefit Obligation		Net Benefit Plan Cost	
		Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	1%	(348)	430	5	(7)
Future compensation rate	1%	10	(11)	-	-
Long-term inflation rate <sup>(1)</sup>	1%	410	(339)	11	(9)
Health care cost trend rate	1%	10	(8)	-	-
Life expectancy	10%	72	(81)	2	(2)

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

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

## 18. BALANCES FROM CONTRACTS WITH CUSTOMERS

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

### ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

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

	2019	2018
Trade accounts receivable and contract assets	508	608
Accounts receivable from parent company	102	54
Other accounts receivable	13	14
	<b>623</b>	676

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

December 31, 2017	590
Revenue from satisfied performance obligations	3,266
Customer billings and other items not included in revenue	333
Acquisition of EGO (Note 27)	2
Payments received	(3,586)
Foreign exchange rate adjustment	3
December 31, 2018	608
Revenue from satisfied performance obligations	3,440
Customer billings and other items not included in revenue	446
Sale of operations <sup>(1)</sup>	(72)
Sale of ASHCOR Technologies Ltd. (Note 34)	(4)
Payments received	(3,907)
Foreign exchange rate adjustment and other	(3)
December 31, 2019	<b>508</b>

(1) In the second quarter of 2019, as a result of the announced sales of the Canadian fossil fuel-based electricity generation portfolio and the ownership interest in Alberta PowerLine, trade accounts receivable and contract assets of \$72 million were reclassified as assets held for sale. The sale of operations transactions closed in the second half of 2019 (Note 27).

### CUSTOMER CONTRIBUTIONS

Certain additions to property, plant and equipment, mainly in the utilities, are made with the assistance of non-refundable cash contributions from customers. These contributions are made when the estimated revenue is less than the cost of providing service or where the customer needs special equipment. Since these contributions will

provide customers with on-going access to the supply of natural gas or electricity, they represent deferred revenues and are recognized in revenues over the life of the related asset.

Changes in customer contributions balance are summarized below.

	Note	
December 31, 2017		1,808
Receipt of customer contributions		90
Derecognition on termination of Power Purchase Arrangement	4	(35)
Amortization		(65)
December 31, 2018		1,798
Receipt of customer contributions		<b>85</b>
Sale of operations <sup>(1)</sup>		<b>(97)</b>
Amortization		<b>(66)</b>
December 31, 2019		<b>1,720</b>

(1) In the second quarter of 2019, as a result of the announced sale of the Canadian fossil fuel-based electricity generation portfolio, customer contributions of \$97 million were reclassified as liabilities held for sale. The sale of operations transactions closed in the second half of 2019 (Note 27).

## 19. LEASES

### THE COMPANY AS LESSEE

#### Right-of-use assets

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

	Note	2019 Land and Buildings
<b>Cost</b>		
January 1, 2019, on adoption of IFRS 16	3	67
Additions		<b>2</b>
Disposals		<b>(1)</b>
December 31, 2019		<b>68</b>
<b>Accumulated depreciation</b>		
January 1, 2019, on adoption of IFRS 16	3	-
Depreciation		<b>11</b>
December 31, 2019		<b>11</b>
<b>Net book value</b>		
January 1, 2019, on adoption of IFRS 16	3	67
December 31, 2019		<b>57</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	67
Additions		<b>2</b>
Disposals		<b>(1)</b>
Interest expense	7	<b>2</b>
Lease payments		<b>(12)</b>
		<b>58</b>
Less: amounts due within one year		<b>(9)</b>
December 31, 2019		<b>49</b>

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

In one year or less	11
In more than one year, but not more than five years	39
In more than five years	17
	67

During the year ended December 31, 2019, \$5 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.

### THE COMPANY AS LESSOR

The Company is party to certain arrangements that convey the right to use electricity generation and non-regulated electricity transmission assets.

#### Finance leases

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

	2019	2018
<b>Net investment in finance leases</b>		
Finance lease - gross investment	327	683
Unearned finance income	(152)	(291)
Unguaranteed residual value	-	3
	175	395
Current portion	8	15
Non-current portion	167	380
	175	395
<b>Gross receivables from finance leases</b>		
In one year or less	26	52
In more than one year, but not more than five years	102	209
In more than five years	199	422
	327	683
<b>Net investment in finance leases</b>		
In one year or less	8	15
In more than one year, but not more than five years	41	87
In more than five years	126	293
	175	395

During the year ended December 31, 2019, \$2 million of contingent rent was recognized as income from these finance leases (2018 - \$21 million).

#### Sale of operations

Following the announcement of agreements to sell the Canadian fossil fuel-based electricity generation portfolio (see Note 27), the Company included \$218 million of finance lease receivables in assets of the disposal groups classified as held for sale at June 30, 2019. Subsequently, \$214 million of finance lease receivables was included in net assets of the operations sold.

## 20. EQUITY PREFERRED SHARES

### CANADIAN UTILITIES LIMITED EQUITY PREFERRED SHARES

#### Authorized and issued

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

Issued	2019		2018	
	Shares	Amount	Shares	Amount
<b>Cumulative Redeemable Second Preferred Shares</b>				
3.403% Series Y	13,000,000	325	13,000,000	325
4.90% Series AA	6,000,000	150	6,000,000	150
4.90% Series BB	6,000,000	150	6,000,000	150
4.50% Series CC	7,000,000	175	7,000,000	175
4.50% Series DD	9,000,000	225	9,000,000	225
5.25% Series EE	5,000,000	125	5,000,000	125
4.50% Series FF	10,000,000	250	10,000,000	250
<b>Perpetual Cumulative Second Preferred Shares</b>				
4.60% Series V	4,400,000	110	4,400,000	110
Issuance costs		(27)		(27)
		<b>1,483</b>		<b>1,483</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
<b>Cumulative Redeemable Second Preferred Shares</b>					
Series Y	25.00	0.2126875	2.40%	June 1, 2022 <sup>(4)</sup>	Series Z <sup>(5)</sup>
Series AA	25.00	0.30625	Does not reset	September 1, 2017 <sup>(6)</sup>	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 <sup>(6)</sup>	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 <sup>(6)</sup>	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 <sup>(6)</sup>	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 <sup>(6)</sup>	Not convertible
Series FF	25.00	0.28125	3.69%	December 1, 2020 <sup>(4)</sup>	Series GG <sup>(5)</sup>
<b>Perpetual Cumulative Second Preferred Shares</b>					
Series V	25.00	0.2875	No premium	Currently redeemable	Not convertible

(1) Plus accrued and unpaid dividends.

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

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

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

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

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



## Dividends

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

<i>(dollars per share)</i>	2019	2018
<b>Cumulative Redeemable Second Preferred Shares</b>		
3.403% Series Y	<b>0.8508</b>	0.8508
4.90% Series AA	<b>1.2250</b>	1.2250
4.90% Series BB	<b>1.2250</b>	1.2250
4.50% Series CC	<b>1.1250</b>	1.1250
4.50% Series DD	<b>1.1250</b>	1.1250
5.25% Series EE	<b>1.3125</b>	1.3125
4.50% Series FF	<b>1.1250</b>	1.1250
<b>Perpetual Cumulative Second Preferred Shares</b>		
4.60% Series V	<b>1.1500</b>	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 \$0.2126875 per Series Y Preferred Share, \$0.30625 per Series AA and Series BB Preferred Share, \$0.28125 per Series CC, Series DD, and Series FF Preferred Share and \$0.328125 per Series EE Preferred Share.

## 21. CLASS A AND CLASS B SHARES

A reconciliation of the number and dollar amount of outstanding Class A and Class B shares at December 31, 2019 is shown below.

### AUTHORIZED AND ISSUED

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2017	196,989,272	1,041	74,112,783	141	271,102,055	1,182
Shares issued	2,000,420	63	-	-	2,000,420	63
Stock options exercised	39,000	1	-	-	39,000	1
Converted: Class B to Class A	337,803	1	(337,803)	(1)	-	-
December 31, 2018	199,366,495	1,106	73,774,980	140	273,141,475	1,246
Stock options exercised	<b>104,450</b>	<b>3</b>	-	-	<b>104,450</b>	<b>3</b>
Converted: Class B to Class A	<b>224,136</b>	<b>1</b>	<b>(224,136)</b>	<b>(1)</b>	-	-
December 31, 2019	<b>199,695,081</b>	<b>1,110</b>	<b>73,550,844</b>	<b>139</b>	<b>273,245,925</b>	<b>1,249</b>

Class A and Class B shares have no par value.

### MID-TERM INCENTIVE PLAN

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

	2019		2018	
	Shares	Amount	Shares	Amount
Shares issued and outstanding	<b>273,245,925</b>	<b>1,249</b>	273,141,475	1,246
Shares held in trust for the mid-term incentive plan	<b>(579,524)</b>	<b>(21)</b>	(548,477)	(20)
Shares outstanding, net of shares held in trust	<b>272,666,401</b>	<b>1,228</b>	272,592,998	1,226

## **DIVIDENDS**

The Company declared and paid cash dividends of \$1.6908 per Class A and Class B share during 2019 (2018 - \$1.5732). The Company's policy is to pay dividends quarterly on its Class A and Class B shares. The payment and amount of any quarterly dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 9, 2020, the Company declared a first quarter dividend of \$0.4354 per Class A and Class B share.

## **SHARE OWNER RIGHTS**

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

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

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

## **DIVIDEND REINVESTMENT PROGRAM**

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

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

Effective January 10, 2019, the Company suspended its dividend reinvestment program. No Class A non-voting shares were issued under the DRIP during the year ended December 31, 2019.

During the year ended December 31, 2018, 2,000,420 Class A non-voting shares were issued under the DRIP using re-invested dividends of \$63 million. These shares were priced at an average of \$31.37 per share.

## 22. 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.

	Note	2019	2018
Depreciation and amortization		582	638
Gain on sale of operations	27	(174)	-
Gain on sale of Barking Power assets	11	-	(125)
Dividends and distributions received from investment in joint ventures, net of earnings		2	2
Income tax expense		53	225
Unearned availability incentives		7	-
Unrealized gains on mark-to-market forward and swap commodity contracts		(7)	(42)
Contributions by customers for extensions to plant		85	90
Amortization of customer contributions		(66)	(65)
Derecognition of customer contributions on termination of Power Purchase Arrangement	4	-	(35)
Net finance costs		462	469
Income taxes paid		(77)	(57)
Other		(28)	41
		839	1,141

### 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	108	(86)
Inventories	(3)	7
Prepaid expenses and other current assets	(56)	(139)
Accounts payable and accrued liabilities	(284)	142
Provisions and other current liabilities	(24)	(33)
	(259)	(109)
<b>Investing activities</b>		
Accounts receivable and contract assets	5	-
Inventories	3	(3)
Prepaid expenses	2	1
Accounts payable and accrued liabilities	(3)	(67)
	7	(69)

## DEBT RECONCILIATION

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

	Short-term debt	Long-term debt	Non-recourse debt	Total
<b>Liabilities from financing activities</b>				
December 31, 2017	-	8,499	1,416	9,915
Net issue (repayment) of debt	175	376	(16)	535
Foreign currency translation	-	(11)	-	(11)
Assumption of debt on acquisition of EGO (Note 27)	-	42	-	42
Debt issue costs	-	(6)	-	(6)
Amortization of deferred financing charges	-	4	1	5
December 31, 2018	175	8,904	1,401	10,480
Net (repayment) issue of debt	(175)	100	(32)	(107)
Foreign currency translation	-	(37)	-	(37)
Sale of operations (Note 27)	-	-	(1,371)	(1,371)
Debt issue costs	-	(4)	-	(4)
Amortization of deferred financing charges	-	3	2	5
December 31, 2019	-	8,966	-	8,966

See Note 19 for the reconciliation of the changes in lease liability for the year ended December 31, 2019.

## CASH POSITION

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

	2019	2018
Cash	973	545
Restricted cash <sup>(1)</sup>	4	54
Cash and cash equivalents	977	599

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

## 23. 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 and cash equivalents, accounts receivable and contract assets, restricted project funds, accounts payable and accrued liabilities and short-term debt.	Assumed to approximate carrying value due to their short-term nature.
Finance lease receivables and receivable under service concession arrangement.	Determined using a risk-adjusted interest rate to discount future cash receipts (Level 2).
Long-term debt and non-recourse long-term debt.	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
<b>Measured at Fair Value</b>	
Interest rate swaps	Determined using interest rate yield curves at period-end (Level 2).
Foreign currency contracts	Determined using quoted forward exchange rates at period-end (Level 2).
Commodity contracts	Determined using observable period-end forward curves and quoted spot market prices with inputs validated by publicly available market providers (Level 2).  Determined using statistical techniques to derive period-end forward curves using unobservable inputs or extrapolation from spot prices in certain commodity contracts (Level 3).

### FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

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>				
Finance lease receivables	175	224	395	487
Receivable under service concession arrangement	-	-	1,396	1,396
<b>Financial Liabilities</b>				
Long-term debt	8,966	10,607	8,904	9,547
Non-recourse long-term debt	-	-	1,401	1,474

## FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At December 31, 2019, the following derivative instruments were outstanding:

- interest rate swaps for the purpose of limiting interest rate risk on the variable future cash flows of long-term debt;
- foreign currency forward contracts for the purpose of limiting exposure to exchange rate fluctuations relating to expenditures denominated in Australian dollars and Mexican pesos; and
- natural gas and forward power sale and purchase contracts for the purpose of limiting exposure to electricity and natural gas market price movements.

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

Recurring Measurements	Subject to Hedge Accounting		Not Subject to Hedge Accounting		Total Fair Value of Derivatives
	Interest Rate Swaps	Commodities	Commodities	Foreign Currency Forward Contracts	
<b>December 31, 2019</b>					
<b>Financial Assets</b>					
Prepaid expenses and other current assets	–	20	–	–	20
Other assets	5	21	–	–	26
<b>Financial Liabilities</b>					
Other current liabilities <sup>(1)(2)</sup>	–	11	–	–	11
Other liabilities <sup>(1)(2)</sup>	1	10	–	–	11
<b>December 31, 2018</b>					
<b>Financial Assets</b>					
Prepaid expenses and other current assets	1	2	–	–	3
Other assets	1	2	4	–	7
<b>Financial Liabilities</b>					
Other current liabilities <sup>(1)(2)</sup>	–	15	34	4	53
Other liabilities <sup>(1)(2)</sup>	3	8	27	–	38

(1) At December 31, 2019, financial liabilities include \$7 million of Level 3 derivative financial instruments (2018 - nil).

(2) At December 31, 2018, the Company paid \$18 million of cash collateral to third parties on commodity forward positions related to future periods. The contracts held with these third parties had an enforceable master netting arrangement, which allowed the right to offset. In 2019, these contracts were disposed by the Company as part of the sale of the Canadian fossil fuel-based electricity generation portfolio (Note 27).

During the year ended December 31, 2019, gains before income taxes of \$2 million were recognized in other comprehensive income (OCI) (2018 - losses of \$2 million) and losses before income taxes of \$22 million were reclassified to the statement of earnings (2018 - losses of \$11 million), of which \$11 million were reclassified on sale of the Canadian fossil fuel-based electricity generation portfolio (Note 27).

Hedge ineffectiveness of \$19 million was recognized in the statement of earnings during 2019 (2018 - \$1 million). Over the next 12 months, the Company estimates that losses before income taxes of less than \$1 million will be reclassified from accumulated other comprehensive income (AOCI) to earnings.

## Notional and maturity summary

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

Notional value and maturity	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
	Interest Rate Swaps	Natural Gas <sup>(1)</sup>	Power <sup>(2)</sup>	Natural Gas <sup>(1)</sup>	Power <sup>(2)</sup>	Foreign Currency Forward Contracts
<b>December 31, 2019</b>						
Purchases <sup>(3)</sup>	–	19,680,771	2,627,765	–	–	–
Sales <sup>(3)</sup>	–	20,456,673	2,215,145	7,000,000	–	–
Currency						
Australian dollars	743	–	–	–	–	–
Mexican pesos	570	–	–	–	–	100
Maturity	2020-2024	2020-2024	2020-2024	2020-2021	–	2020
<b>December 31, 2018</b>						
Purchases <sup>(3)</sup>	–	12,545,000	–	58,518,200	3,254,650	–
Sales <sup>(3)</sup>	–	–	1,193,640	7,740,700	7,574,926	–
Currency						
Canadian dollars	2	–	–	–	–	–
Australian dollars	744	–	–	–	–	–
Mexican pesos	570	–	–	–	–	140
British pounds	–	–	–	–	–	74
Maturity	2019-2023	2019-2021	2019-2020	2019-2022	2019-2021	2019

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

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

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

## OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

	Effects of Offsetting on the Balance Sheet		
	Gross Amount	Gross Amount Offset	Net Amount Recognized
<b>2019</b>			
<b>Financial Assets</b>			
Accounts receivable and contract assets	59	(37)	22
<b>2018</b>			
<b>Financial Assets</b>			
Derivative assets <sup>(1)</sup>	8	–	8
Accounts receivable and contract assets	118	(76)	42
<b>Financial Liabilities</b>			
Derivative liabilities <sup>(1)</sup>	103	(18)	85

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

## 24. RISK MANAGEMENT

### FINANCIAL RISKS

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

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

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

### MARKET RISK

#### *Interest rate risk*

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

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

The Company's risk management policy is to hedge all material interest rate risk exposures related to long-term financings when the risk is incurred, unless commercial arrangements or mechanisms are in place to offset such interest rate risk. The Company has fixed interest rates, either directly or through interest rate swap agreements, on 100 per cent (2018 - 100 per cent) of total long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited.

A 25 basis point increase or decrease in interest rates would increase or decrease earnings by less than \$1 million. This analysis has been determined based on the exposure to interest rates for financial instruments outstanding at December 31, 2019.

#### *Foreign exchange risk*

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

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

	<b>OCI</b>
U.S. dollar	4
Australian dollar	38

The sensitivity analysis is based on management's assessment that an average 10 per cent increase or decrease in this currency relative to the Canadian dollar is a reasonable potential change over the next year. This analysis has been determined based on the exposure to foreign exchange for financial instruments outstanding at December 31, 2019.



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

### ***Energy commodity price risk***

Energy commodity price risk is the risk that the fair value or future cash flows of natural gas and electricity sales and purchases will fluctuate due to changes in market prices. Fluctuations in market prices result from changes in supply and customer demand, fuel costs, market conditions, weather, regulatory policies, and other factors. The Company's retail energy and natural gas storage businesses are exposed to commodity price movements, particularly to the market price of natural gas and electricity.

Anticipated price risks are calculated based on the Company's customer demand requirements and supply requirements to natural gas and electricity. These are consistently observed and analyzed to ensure that operational and commercial strategic policies to mitigate pricing risk are met.

The Company manages its price risk as part of its strategy by entering into hedging contracts, including short-term and long-term fixed price sale and purchase contracts. Management actively monitors its derivative transactions in accordance with its risk management policy. This policy sets out pre-defined risks and financial parameters so that price fluctuations do not materially affect the margins the Company ultimately receives.

The Company is also exposed to seasonal natural gas price spreads in its natural gas storage operations. Management mitigates this risk by entering into short-term and long-term firm capacity arrangements, where appropriate.

The Company's natural gas and electricity contracts associated with financial derivatives are significantly influenced by the variability of forward spot prices.

A 10 per cent increase or decrease in the forward price of natural gas or electricity would each increase or decrease earnings and OCI by \$1 million and \$1 million, respectively. This analysis assumes that changes in the forward price of natural gas and electricity affects the mark-to-market adjustment of the purchase and sale contracts.

### **CREDIT RISK**

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

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

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

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

The Company does not have a concentration of credit risk with any counterparty, except for finance lease receivables, which by its nature is with a single counterparty.

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

	High (AA to AAA)	Medium (BBB to A)	Low (BB and below)
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 \$50 million of accounts receivable and contract assets classified as Low (BB and below) (2018 - less than \$100 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 \$3 million (2018 - less than \$1 million).

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

	2019	2018
Up to 30 days	485	536
31 to 60 days	14	52
61 to 90 days	3	6
Over 90 days	6	14
	508	608

At December 31, 2019, the Company held \$246 million in letters of credit for certain counterparty receivables (2018 - \$246 million). The Company did not take possession of any collateral it holds as security in 2019 or 2018. The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 32).

## LIQUIDITY RISK

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

### *Lines of credit*

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

	2019			2018		
	Total	Used	Available	Total	Used	Available
Long-term committed	2,460	622	1,838	2,497	874	1,623
Uncommitted	553	173	380	553	340	213
	3,013	795	2,218	3,050	1,214	1,836

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 14)	–	175
Long-term debt	619	649
Letters of credit	176	390
	<b>795</b>	1,214

### Commercial paper

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

### Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 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	536	–	–	–	–	–
Long-term debt:						
Principal	158	416	325	508	120	7,485
Interest expense <sup>(1)</sup>	391	376	355	337	323	6,622
Derivatives <sup>(2)</sup>	11	8	1	1	–	–
	<b>1,096</b>	<b>800</b>	<b>681</b>	<b>846</b>	<b>443</b>	<b>14,107</b>

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2019. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2019.

## 25. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

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

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

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

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

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

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

	2019	2018
Short-term debt	–	175
Long-term debt	<b>8,966</b>	8,904
Non-recourse long-term debt	–	1,401
<b>Total debt</b>	<b>8,966</b>	10,480
Class A and Class B shares	<b>1,228</b>	1,226
Contributed surplus	<b>16</b>	15
Retained earnings	<b>4,054</b>	3,675
Accumulated other comprehensive loss	<b>(47)</b>	(24)
Equity preferred shares	<b>1,483</b>	1,483
Non-controlling interests	<b>187</b>	187
<b>Total equity</b>	<b>6,921</b>	6,562
<b>Total capitalization</b>	<b>15,887</b>	17,042
<b>Debt capitalization</b>	<b>56%</b>	61%

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.

## 26. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

### SIGNIFICANT ACCOUNTING JUDGMENTS

#### **Revenue related items**

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

#### **Impairment of financial assets**

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

#### **Joint arrangements**

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

#### **Service concession arrangements**

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

### ***Impairment of long-lived assets***

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

### ***Property, plant and equipment and intangibles***

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

### ***Leases***

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

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.

### ***Disposal groups and assets classified as held for sale***

In 2019, the Company made judgments with regards to classification of assets and liabilities of certain businesses as assets and liabilities held for sale and their operations as discontinued operations (see Note 27). The Company used significant judgment in evaluating whether the sales were considered highly probable and considered the progress of negotiations towards the significant terms of the sales. As a result, the Company classified the disposal groups as assets and liabilities held for sale. The Company also used significant judgment in evaluating whether a disposal group represented a major line of business or geographical area of operations to be classified as discontinued operations, including considerations as to whether a disposal group was significant in relation to a reportable segment. The Company concluded that the disposal groups should not have been classified as discontinued operations since they were not considered a separate major line of business or geographical area of operations.

## **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 24.

### ***Service concession arrangements***

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

### ***Useful lives of property, plant and equipment and intangibles***

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

### ***Impairment of long-lived assets***

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

### ***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 17.

### ***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.

## 27. BUSINESS COMBINATIONS

### SALE OF OPERATIONS

In 2019, proceeds on sale of operations, net of cash disposed, and gain on sale of operations are summarized as follows:

<i>(millions of Canadian Dollars)</i>	Sale of the Canadian fossil fuel-based electricity generation portfolio	Sale of Alberta PowerLine operations	Total
<b>Proceeds on sale of operations:</b>			
Cash consideration received in 2019	770	222	992
Cash and cash equivalents disposed	(89)	–	(89)
<b><i>Proceeds on sale of operations received in 2019, net of cash and cash equivalents disposed</i></b>	681	222	903
Cash consideration received in 2020 on final closing adjustments	13	–	13
<b>Total proceeds on sale of operations, received and receivable, net of cash and cash equivalents disposed</b>	694	222	916
<b>Gain (loss) on sale of operations before income taxes</b>	175	(1)	174
<b>Gain (loss) on sale of operations after income taxes</b>	150	(25)	125

#### ***Sale of the Canadian fossil fuel-based electricity generation portfolio***

On May 27, 2019, the Company announced that it had entered into agreements to sell its Canadian fossil fuel-based electricity generation portfolio (Electricity generation disposal group).

An agreement with Heartland Generation Ltd., an affiliate of Energy Capital Partners, closed on September 30, 2019, and included the sale of 10 partly or fully owned natural gas-fired and coal-fired electricity generation assets located in Alberta and British Columbia. In two other separate transactions, the Company entered into agreements to sell its 50 per cent ownership interest in the Cory Cogeneration Station to SaskPower International and its 50 per cent ownership interest in Brighton Beach Power to Ontario Power Generation. This portfolio of transactions all closed in the third quarter of 2019 and resulted in gross proceeds of \$821 million. An additional \$13 million was received in January 2020 for settlement of customary post-closing purchase price adjustments.

Prior to the sale, the Company had classified the assets and liabilities of the Electricity generation disposal group as assets held for sale. These assets and liabilities were reported in the Electricity operating segment.

The below summary illustrates major classes of assets and liabilities of the Electricity generation disposal group at June 30, 2019, when the assets and liabilities were classified as held for sale, and the major classes of assets and liabilities included in sale of operations.

<i>(millions of Canadian Dollars)</i>	<b>Assets and liabilities of the disposal group classified as held for sale at June 30, 2019</b>	<b>Assets and liabilities of the disposal group prior to sale of operations</b>	<b>Assets and liabilities of disposal group sold</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	141	89	
Accounts receivable and contract assets	68	77	
Finance lease receivables	11	12	
Prepaid expenses and other current assets	40	18	
	260	196	
<b>Non-current assets</b>			
Property, plant and equipment	508	535	
Intangibles	18	17	
Investment in joint ventures	35	35	
Finance lease receivables	207	202	
Deferred income tax assets	12	32	
Other assets	23	49	
<b>Assets of the disposal group</b>	<b>1,063</b>	<b>1,066</b>	<b>1,066</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable, accrued liabilities and other current liabilities	110	159	
Non-recourse long-term debt <sup>(1)</sup>	15	10	
	125	169	
<b>Non-current liabilities</b>			
Deferred income tax liabilities	23	33	
Customer contributions	97	96	
Other liabilities	163	187	
Non-recourse long-term debt <sup>(1)</sup>	45	32	
<b>Liabilities of the disposal group</b>	<b>453</b>	<b>517</b>	<b>517</b>
<b>Net assets of the disposal group</b>			<b>549</b>

(1) As part of the negotiation process with Heartland Generation Ltd., the Company assumed \$18 million of non-recourse long-term debt previously classified in liabilities of the disposal group. This amount was repaid in September 2019 (see Note 16).



The gain on sale of the Canadian fossil fuel-based electricity generation portfolio is shown below.

(millions of Canadian Dollars)

<b>Aggregate consideration as per share purchase agreement</b>	<b>821</b>
Debt adjustments <sup>(1)</sup>	<b>(109)</b>
Working capital and other purchase price adjustments made in 2019	<b>58</b>
<b>Cash consideration received in 2019</b>	<b>770</b>
<b>Cash consideration received in 2020 on final closing adjustments</b>	<b>13</b>
<b>Cash consideration received and receivable</b>	<b>783</b>
<b>Carrying value of net assets sold and other items</b>	
Carrying value of net assets sold	<b>(549)</b>
Transaction costs <sup>(2)</sup>	<b>(29)</b>
Write-down of natural gas inventory <sup>(3)</sup>	<b>(19)</b>
Other directly attributable costs	<b>(11)</b>
	<b>(608)</b>
<b>Gain on sale before income taxes</b>	<b>175</b>
Income tax expense	<b>(25)</b>
<b>Gain on sale after income taxes</b>	<b>150</b>

(1) Debt adjustments include \$37 million of non-recourse long-term debt of Cory Cogeneration Station assumed by SaskPower International, \$67 million of non-recourse long-term debt of Brighton Beach Power assumed by Ontario Power Generation and \$5 million of non-recourse debt assumed by Heartland Generation Ltd.

(2) Transaction costs relate to success fees, legal costs and other advisory costs directly attributable to the sale of operations.

(3) Prior to the sale of the Electricity generation disposal group, certain natural gas inventory in the electricity generation business was valued at cost in the balance sheet as the value was supported by electricity generation operations. As a result of the sale of this business, the natural gas inventory, which was retained by the Company, was revalued to the lesser of cost or net realizable value as the cost will no longer be supported by electricity generation's revenues. This resulted in a write-down of \$19 million.

### **Sale of Alberta PowerLine operations**

On June 24, 2019, the Company announced that it had entered into agreements to sell its entire 80 per cent ownership interest in Alberta PowerLine (APL disposal group), a partnership between the Company and Quanta Services Inc.

The transaction closed on December 18, 2019 for gross proceeds of \$222 million and the assumption of \$1.4 billion of debt, excluding deferred financing charges.

Prior to the sale, the Company had classified the assets and liabilities of the APL disposal group as assets held for sale. These assets and liabilities were reported in the Electricity operating segment.

The below summary illustrates major classes of assets and liabilities of the APL disposal group at June 30, 2019, when the assets and liabilities were classified as held for sale, and the major classes of assets and liabilities included in sale of operations.

<i>(millions of Canadian Dollars)</i>	Assets and liabilities of the disposal group classified as held for sale at June 30, 2019	Assets and liabilities of the disposal group prior to sale of operations	Assets and liabilities of disposal group sold
<b>ASSETS</b>			
<b>Current assets</b>			
Accounts receivable and contract assets	4	7	
Restricted project funds	235	83	
Receivable under service concession arrangement	109	106	
	348	196	
<b>Non-current assets</b>			
Receivable under service concession arrangement	1,425	1,470	
Other assets	–	18	
<b>Assets of the disposal group</b>	<b>1,773</b>	<b>1,684</b>	<b>1,684</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable, accrued liabilities and other current liabilities	146	25	
Non-recourse long-term debt	15	20	
	161	45	
<b>Non-current liabilities</b>			
Deferred income tax liabilities	51	56	
Other liabilities <sup>(1)</sup>	60	62	
Non-recourse long-term debt	1,319	1,309	
<b>Liabilities of the disposal group</b>	<b>1,591</b>	<b>1,472</b>	<b>1,472</b>
<b>Net assets of disposal group classified as held for sale</b>	<b>182</b>	<b>212</b>	<b>212</b>

(1) Represents the 20 per cent non-controlling ownership interest classified as other liabilities.

The loss on sale of Alberta PowerLine is shown below.

<i>(millions of Canadian Dollars)</i>	
<b>Aggregate consideration as per share purchase agreement</b>	<b>222</b>
<b>Carrying value of net assets sold and other items</b>	
Carrying value of net assets sold	(212)
Transaction costs <sup>(1)</sup>	(11)
	(223)
<b>Loss on sale before income taxes</b>	<b>(1)</b>
Income tax expense	(24)
<b>Loss on sale after income taxes</b>	<b>(25)</b>

(1) Transaction costs relate to success fees, legal costs and other advisory costs directly attributable to the sale of operations.

## BUSINESS ACQUISITION

### Acquisition of electricity generation business in Mexico

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

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

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

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

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

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

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

## 28. SUBSIDIARIES

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

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
<b>Subsidiaries at December 31, 2019 and December 31, 2018</b>		
ATCO Energy Solutions	Canada	Develops, owns and operates non-regulated energy and water-related infrastructure
Electricidad del Golfo	Mexico	Electricity generation and related infrastructure services
ATCO Gas Australia	Australia	Natural gas distribution
ATCO Power Australia	Australia	Electricity generation
ATCO Energy	Canada	Electricity and natural gas retailer
ATCO Power (2010) <sup>(1)</sup>	Canada	Electricity generation and related infrastructure services
CU Inc.	Canada	Holding company
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines	Canada	Natural gas transmission and related infrastructure development
<b>Subsidiaries at December 31, 2018, and sold during the year ended December 31, 2019 (see Note 27)</b>		
ATCO Power Canada <sup>(2)</sup>	Canada	Electricity generation and related infrastructure services
Alberta PowerLine <sup>(3)</sup>	Canada	Design, build, own, and operate transmission infrastructure

(1) Following the sale of the Canadian fossil fuel-based electricity generation portfolio (see Note 27), ATCO Power (2010) holds the remaining Canadian electricity generation and related infrastructure assets.

(2) Included the Canadian fossil fuel-based electricity generation portfolio sold in 2019 (see Note 27).

(3) Prior to the sale of operations on December 19, 2019, Canadian Utilities Limited had an ownership interest of 80 per cent.

## 29. JOINT ARRANGEMENTS

### JOINT OPERATIONS

In 2019, the Company disposed of its significant joint operations as part of the sale of the Canadian fossil fuel-based electricity generation portfolio (see Note 27). Prior to the sale, the significant joint operations, all of which were included in the Electricity segment, were as follows.

Significant Joint Operations	Operating Jurisdiction	Ownership %	Principal Activity
Sheerness Generating Plant	Canada	50	Electricity generation
Joffre Cogeneration Plant	Canada	40	Electricity generation
Cory Cogeneration Plant	Canada	50	Electricity generation
Muskeg River Cogeneration Plant	Canada	70	Electricity generation

### JOINT VENTURES

In 2019, the Company disposed of its 50 per cent ownership in Brighton Beach Plant joint venture as part of the sale of the Canadian fossil fuel-based electricity generation portfolio (see Note 27). Prior to the sale, Brighton Beach Plant was included in the Electricity segment.

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

Significant Joint Ventures	Segment	Operating Jurisdiction	Ownership %	Principal Activity
Osborne Cogeneration Plant	Electricity	Australia	50	Electricity generation
Strathcona Storage Limited Partnership	Pipelines & Liquids	Canada	60	Hydrocarbon storage

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

	2019	2018
Earnings for the year	21	24
Other comprehensive loss	-	(2)
Comprehensive income for the year	21	22
Dividends received	23	26
Aggregate carrying amount of interests in joint ventures	144	195

#### **Investment in joint ventures**

In 2019, the Company did not make any contributions to joint ventures (2018 - \$6 million to the Strathcona Storage Limited Partnership).

#### **Commitments**

The joint ventures have contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on the contractual undiscounted cash flows, was \$27 million at December 31, 2019 (2018 - \$103 million).

#### **Restrictions**

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

## 30. NON-CONTROLLING INTERESTS

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

### Authorized and issued

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

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
<b>Cumulative Redeemable Preferred Shares</b>					
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.

## 31. SHARE-BASED COMPENSATION PLANS

### PLAN FEATURES

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

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

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

(2) Based on achieving certain performance criteria.

(3) Issued from Treasury.

(4) Purchased on the secondary market.

## STOCK OPTION PLAN

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

	2019		2018	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options authorized for grant	12,800,000		12,800,000	
Options available for issuance	5,030,200		5,146,900	
Outstanding options, beginning of year	797,200	\$35.09	732,250	\$34.66
Granted	134,000	38.98	128,250	34.12
Exercised	(104,450)	25.53	(39,000)	22.43
Forfeited	(17,300)	37.59	(24,300)	37.58
Outstanding options, end of year	809,450	\$36.91	797,200	\$35.09
Options exercisable, end of year	460,800	\$36.66	471,700	\$34.10

Options	Outstanding			Exercisable		
	Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	24.74	34,000	1.2	\$24.74	34,000	\$24.74
	\$27.05 - \$29.97	5,150	5.4	29.54	4,150	29.44
	\$33.07 - \$34.80	182,850	6.1	33.79	88,250	33.44
	\$35.64 - \$39.76	506,350	6.6	38.30	270,400	38.34
	\$40.61 - \$41.54	81,100	5.3	40.82	64,000	40.80
	\$24.74 - \$41.54	809,450	6.1	\$36.91	460,800	\$36.66

Compensation expense related to stock options was less than \$1 million in each of 2019 and 2018, with a corresponding increase to contributed surplus.

## SHARE APPRECIATION RIGHTS

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

	2019		2018	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	797,200	\$35.09	729,450	\$34.71
Granted	134,000	38.98	128,250	34.12
Exercised	(107,945)	25.98	(36,200)	22.30
Forfeited	(17,305)	37.59	(24,300)	37.58
Outstanding SARs, end of year	805,950	\$36.90	797,200	\$35.09
SARs exercisable, end of year	457,300	\$36.64	471,700	\$34.10

SARs	Outstanding			Exercisable		
	Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	\$24.74	34,000	1.2	\$24.74	34,000	\$24.74
	\$27.05 - \$29.97	5,150	5.4	29.54	4,150	29.44
	\$33.07 - \$34.80	182,850	6.1	33.79	88,250	33.44
	\$35.64 - \$39.76	502,850	6.6	38.29	266,900	38.33
	\$40.61 - \$41.54	81,100	5.3	40.82	64,000	40.80
	\$24.74 - \$41.54	805,950	6.1	\$36.90	457,300	\$36.64

In 2019, compensation expense related to SARs was an expense of \$2 million (2018 - credit of \$1 million). The total carrying value of liabilities arising from SARs at December 31, 2019 was \$1 million (2018 - less than \$1 million). The total intrinsic value of all vested SARs at December 31, 2019 was \$1 million (2018 - \$1 million).

### STOCK OPTION AND SARs WEIGHTED AVERAGE ASSUMPTIONS

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

	2019		2018	
	Options	SARs	Options	SARs
Class A share price	<b>\$38.98</b>	<b>\$38.98</b>	\$34.12	\$34.12
Risk-free interest rate	<b>1.48%</b>	<b>1.48%</b>	1.96%	1.96%
Share price volatility <sup>(1)</sup>	<b>17.51%</b>	<b>18.27%</b>	9.91%	7.69%
Estimated annual Class A share dividend	<b>4.27%</b>	<b>4.27%</b>	4.61%	4.61%
Expected holding period prior to exercise	<b>6.8 years</b>	<b>6 years</b>	6.9 years	6.1 years

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

### MID-TERM INCENTIVE PLAN

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

	2019		2018	
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	548,477	\$36.30	548,456	\$38.26
Granted	<b>222,050</b>	<b>36.02</b>	212,800	34.17
Vested	<b>(61,995)</b>	<b>36.43</b>	(115,850)	38.34
Forfeited	<b>(85,132)</b>	<b>36.33</b>	(125,675)	38.51
Change in unallocated shares <sup>(1)</sup>	<b>(43,876)</b>	-	28,746	-
Outstanding MTIPs, end of year	<b>579,524</b>	<b>\$36.17</b>	548,477	\$36.30

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

MTIPs	Outstanding		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value
Range of Prices			
\$33.07 - \$34.69	178,450	1.2	\$34.13
\$35.78 - \$39.76	353,150	1.7	37.07
\$40.82 - \$41.54	8,500	0.5	41.50
Unallocated shares	39,424	-	-
\$33.07 - \$41.54	579,524	1.5	\$36.17

Compensation expense related to MTIP grants was an expense of \$4 million for 2019 with a corresponding increase to contributed surplus (2018 - expense of \$5 million with a corresponding increase to contributed surplus).

The Company, through a trustee, purchased 90,000 shares during 2019 to be distributed to employees on vesting of the awards (2018 - 113,500 shares).

## 32. CONTINGENCIES

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

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

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

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

## 33. 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	336	316	321	319	281	24
Capital expenditures	128	-	-	-	-	-
Other	9	-	-	-	-	-
	473	316	321	319	281	24

## 34. RELATED PARTY TRANSACTIONS

### TRANSACTIONS WITH PARENT AND AFFILIATE COMPANIES

Transaction	Recorded As	2019	2018
Natural gas and electricity sales	Revenues	1	1
Administrative expenses, rent expense and licensing fees	Other expenses	16	19
Capital projects	Property, plant and equipment	20	-

At December 31, 2019, accounts receivable and contract assets due from related parties amounted to \$102 million (2018 - \$54 million) and accounts payable due to related parties amounted to \$28 million (2018 - \$38 million). Receivables and payables with related parties are generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

### *Sale of ASHCOR Technologies Ltd.*

On December 31, 2019, the Company sold its 100 per cent investment in ASHCOR Technologies Ltd. (ASHCOR), an Alberta-based company engaged in marketing fly ash and other combustion products, to ATCO Ltd. for aggregate consideration of \$35 million (\$20 million, net of cash disposed). The transaction resulted in no significant impact on the consolidated earnings. ASHCOR was previously reported in the Electricity segment.



## OTHER

In transactions with the Company's joint ventures, the Company recognized revenues of \$4 million (2018 - \$1 million) relating to management fees and other charges.

In transactions with the Company's group pension plans, the Company paid occupancy costs of \$8 million (2018 - \$8 million) relating to property owned by the pension plans.

The Company received less than \$1 million (2018 - less than \$1 million) in retail electricity and natural gas services revenue and incurred \$1 million (2018 - \$2 million) in advertising, promotion and other expenses from entities related through common control.

## KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2019	2018
Salaries and short-term employee benefits	10	9
Retirement benefits	2	2
Share-based compensation	7	2
	19	13

Key management personnel comprise members of executive management and the Board, a total of 21 individuals (2018 - 20 individuals).

## 35. ACCOUNTING POLICIES

### PRINCIPLES OF CONSOLIDATION

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

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

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

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

### JOINT ARRANGEMENTS

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

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

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

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

## **BUSINESS COMBINATIONS**

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

## **SERVICE CONCESSION ARRANGEMENTS**

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

- (i) the services provided by the Company; and
- (ii) a significant residual interest in the infrastructure.

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

## **REVENUE RECOGNITION**

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

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

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

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

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

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

### ***Electricity generation and delivery***

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

### ***Electricity and natural gas transmission***

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

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

### ***Electricity and natural gas distribution***

Revenue from distribution of electricity and natural gas is recognized when the services are provided to the customer based on metered consumption, which is adjusted periodically to reflect differences between estimated and actual consumption. Distribution of regulated and non-regulated electricity and natural gas is based on tariff-approved rates established by the Alberta Electric 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.

### ***Gas storage and transportation***

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

### ***Lease revenue***

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

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

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

### ***Service concession arrangement***

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

### ***Franchise fees***

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

## **SHORT-TERM EMPLOYEE BENEFITS**

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

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

voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

## **INCOME TAXES**

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

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

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

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

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

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

## **CASH AND CASH EQUIVALENTS**

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

## **INVENTORIES**

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

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

## **PROPERTY, PLANT AND EQUIPMENT**

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

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

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	2 to 65 years	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	3 to 120 years	40 years	2.5%
Power generation plant and equipment:			
Gas-fired	7 years	7 years	13.1%
Hydroelectric	43 to 50 years	56 years	1.8%
Buildings	10 to 50 years	36 years	2.8%
Other plant, equipment and machinery	1 to 74 years	18 years	5.7%

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, assets subject to operating leases were included in property, plant and equipment and were depreciated. Income from operating leases was recognized in earnings on a straight-line basis over the lease term. 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. For both finance and operating leases, 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.

### **ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE**

Assets and liabilities of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction. They are measured at the lower of their carrying value and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits and financial assets and liabilities that are carried at fair value.

Assets held for sale are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

### **PROVISIONS**

The Company recognizes provisions when:

- (i) there is a current legal or constructive obligation as a result of a past event;
- (ii) a probable outflow of economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate of the obligation can be made.

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

## **CONTINGENCIES**

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

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

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

## **ASSET RETIREMENT OBLIGATIONS**

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

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

## **FINANCIAL INSTRUMENTS**

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

- (i) held for the purpose of collecting contractual cash flows, and
- (ii) the contractual cash flows of the financial asset solely represent payments of principle and interest.

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

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

### ***Amortized cost***

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

### ***Fair value through profit or loss***

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

### ***Transaction costs***

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not 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, non-recourse long-term debt and equity preferred shares are presented net of their respective transaction costs.

### ***Offsetting financial instruments***

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

- (i) if there is a legally enforceable right to offset the recognized amounts, and
- (ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

### ***Derecognition of financial instruments***

Financial assets are derecognized:

- (i) when the right to receive cash flows from the financial assets has expired or been transferred, and
- (ii) the Company has transferred substantially all the risks and rewards of ownership.

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

### ***Fair value hierarchy***

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

The hierarchy is as follows:

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

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

## **IMPAIRMENT OF FINANCIAL INSTRUMENTS**

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

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

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

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

## **DERIVATIVE FINANCIAL INSTRUMENTS**

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



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

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

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

### ***Cash flow hedges***

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

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

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

### **RETIREMENT BENEFITS**

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

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

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

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

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

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

## SHARE-BASED COMPENSATION PLANS

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

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

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

## RELATED PARTY TRANSACTIONS

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

## FOREIGN CURRENCY TRANSLATION

### *Foreign currency transactions*

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

### *Foreign operations*

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

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

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

	Exchange Rates as at December 31		Average Exchange Rates for Year Ended December 31	
	2019	2018	2019	2018
U.S. dollar	1.2963	1.3644	1.3281	1.2957
Australian dollar	0.9112	0.9613	0.9227	0.9687

## 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.