



**CANADIAN UTILITIES LIMITED**  
An **ATCO** Company

# CANADIAN UTILITIES LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of Canadian Utilities Limited (Canadian Utilities, our, we, us, or the Company) during the year ended December 31, 2019.

This MD&A was prepared as of February 26, 2020, and should be read with the Company's audited consolidated financial statements (2019 Consolidated Financial Statements) for the year ended December 31, 2019. Additional information, including the Company's Annual Information Form (AIF) is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company is controlled by ATCO Ltd. and its controlling share owner, Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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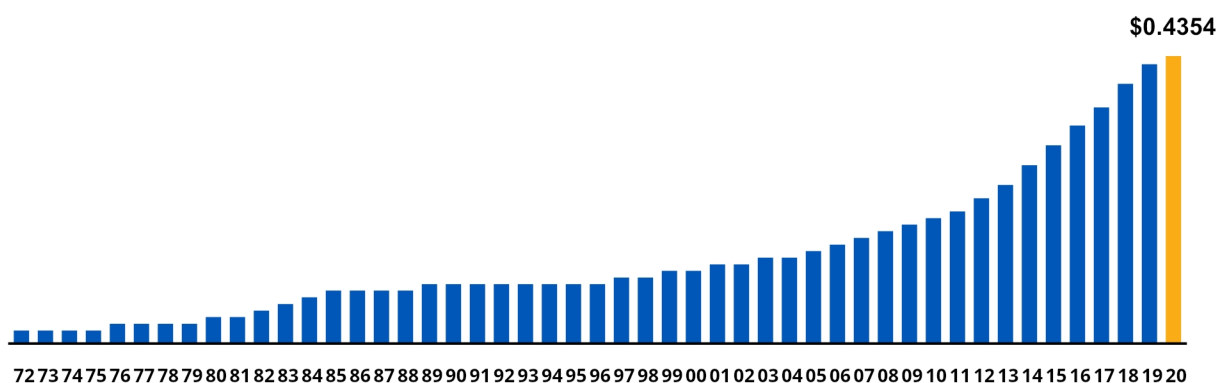
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# CANADIAN UTILITIES: WHAT SETS US APART

## TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 48 years, the longest record of annual dividend increases of any Canadian publicly traded company. On January 9, 2020, we declared a first quarter dividend of 43.54 cents per share or \$1.74 per share on an annualized basis. We aim to grow dividends in-line with our sustainable earnings growth, which is linked to growth from our regulated and long-term contracted investments.

Quarterly Dividend Rate 1972 - 2020  
(dollars per share)



## GROWING A HIGH QUALITY EARNINGS BASE

During the past eight years, Canadian Utilities has invested more than \$12 billion in regulated operations. Regulated Utility adjusted earnings has grown to 95 per cent of total adjusted earnings in 2019. Our highly contracted and regulated earnings base provides the foundation for continued dividend growth.

## FUTURE CAPITAL INVESTMENT

We will continue to grow our business in the years ahead. In the period 2020 to 2022, Canadian Utilities expects to invest \$3.5 billion in Regulated and long-term contracted assets which will continue to strengthen our high quality earnings base and cash flows. Of the \$3.5 billion planned spend, \$3.4 billion will be on regulated utilities.

## FINANCIAL STRENGTH

Financial strength is fundamental to our current and future success. It ensures we have the financial capacity to fund our existing and future capital investment. We are committed to maintaining our strong, investment grade credit ratings, which will allow us to access capital at attractive rates.

**48** year

track record  
of dividend  
growth

**95%**

regulated  
earnings

**\$3.5B**

3 year capital  
investment  
plans

**A**

range credit  
rating

# CANADIAN UTILITIES CORE MISSION AND VALUES

## EXCELLENCE: THE HEART & MIND OF ATCO

*"Going far beyond the call of duty. Doing more than others expect. This is what excellence is all about. It comes from striving, maintaining the highest standards, looking after the smallest detail and going the extra mile. Excellence means caring. It means making a special effort to do more."*

**R.D. Southern, Founder, ATCO**

## CORE MISSION

To build a global portfolio of utilities and energy infrastructure assets that consistently delivers operational excellence and superior returns.

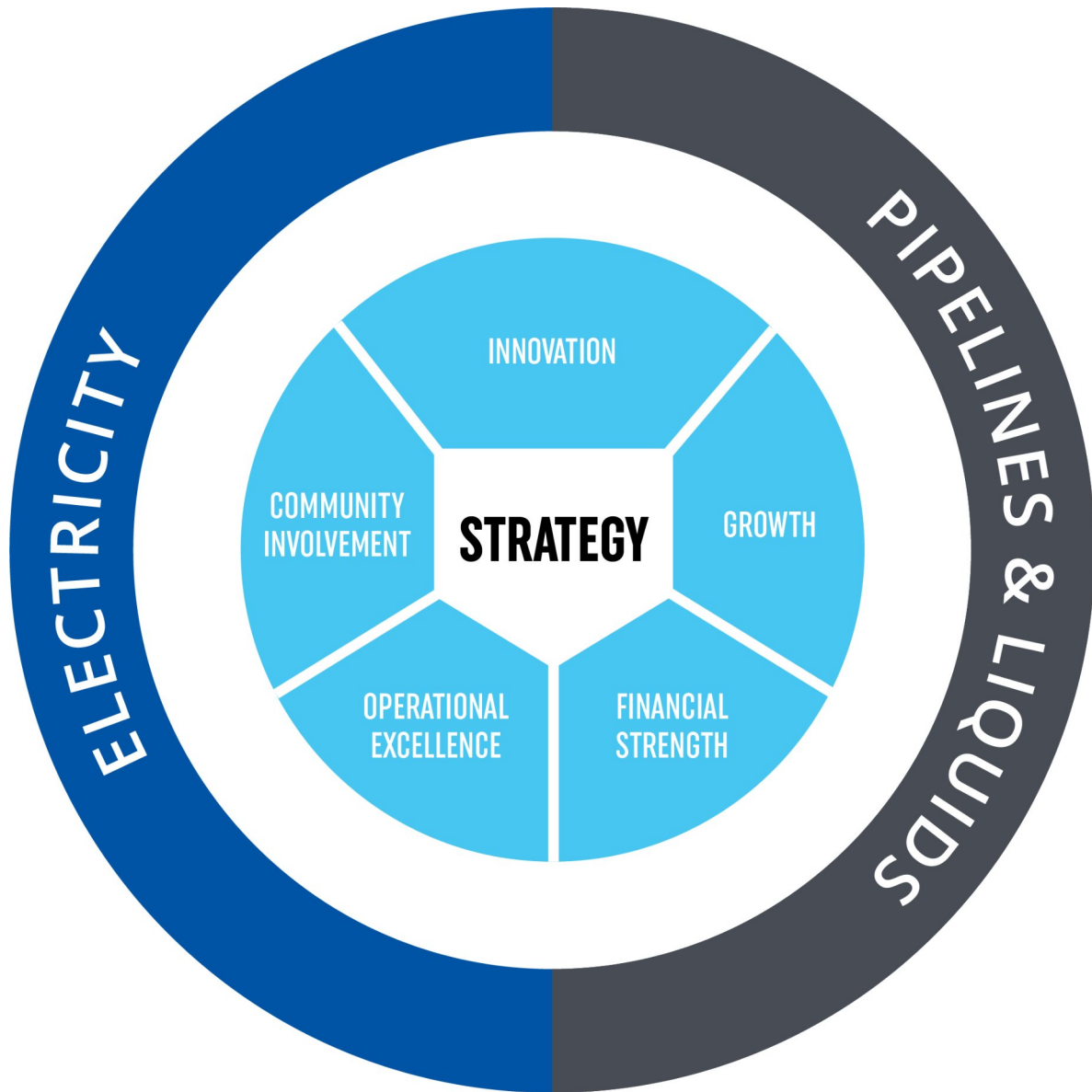
## CORE VALUES

It is ATCO's Heart and Mind that drives the Company's approach to service reliability and product quality. Our pursuit of excellence governs the way we act and make decisions.

# CANADIAN UTILITIES STRATEGIES

Innovation, growth and financial strength provide the foundation from which we have built our Company. Our long-term success depends on our ability to continue offering our customers premier, comprehensive and integrated solutions to meet their needs and expand into new markets.

These strategic imperatives are supported by our unwavering commitment to operational excellence, our customers, our people and the communities we are privileged to serve around the world.



*"Making life easier for our customers by offering integrated energy infrastructure solutions around the world."*

## **INNOVATION**

We seek to create a work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to applied research and development, we are able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

## **GROWTH**

Long-term sustainable growth is paramount. We approach this strategy by: expanding geographically to meet the global needs of our customers; developing significant, value-creating greenfield projects; and fostering continuous improvement.

We pursue the acquisition and development of complementary assets and businesses that have future growth potential and provide long-term value for share owners.

## **FINANCIAL STRENGTH**

Financial strength is fundamental to our current and future success. It ensures Canadian Utilities has the financial capacity to fund existing and future capital investments through a combination of predictable cash flows from operations, cash balances on hand, credit facilities and access to capital markets. It enables Canadian Utilities to sustain our operations and to grow through economic cycles, thereby providing long-term financial benefits.

We continuously review Canadian Utilities' holdings to evaluate opportunities to sell mature assets and recycle the proceeds into growing areas of the Company. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across Canadian Utilities.

## **OPERATIONAL EXCELLENCE**

We achieve operational excellence through high service, reliability, and product quality for our customers and the communities we serve. We are uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize our environmental impact. We ensure the timely supply of goods and services that are critical to our customers' ability to meet their core business objectives.

## **COMMUNITY INVOLVEMENT**

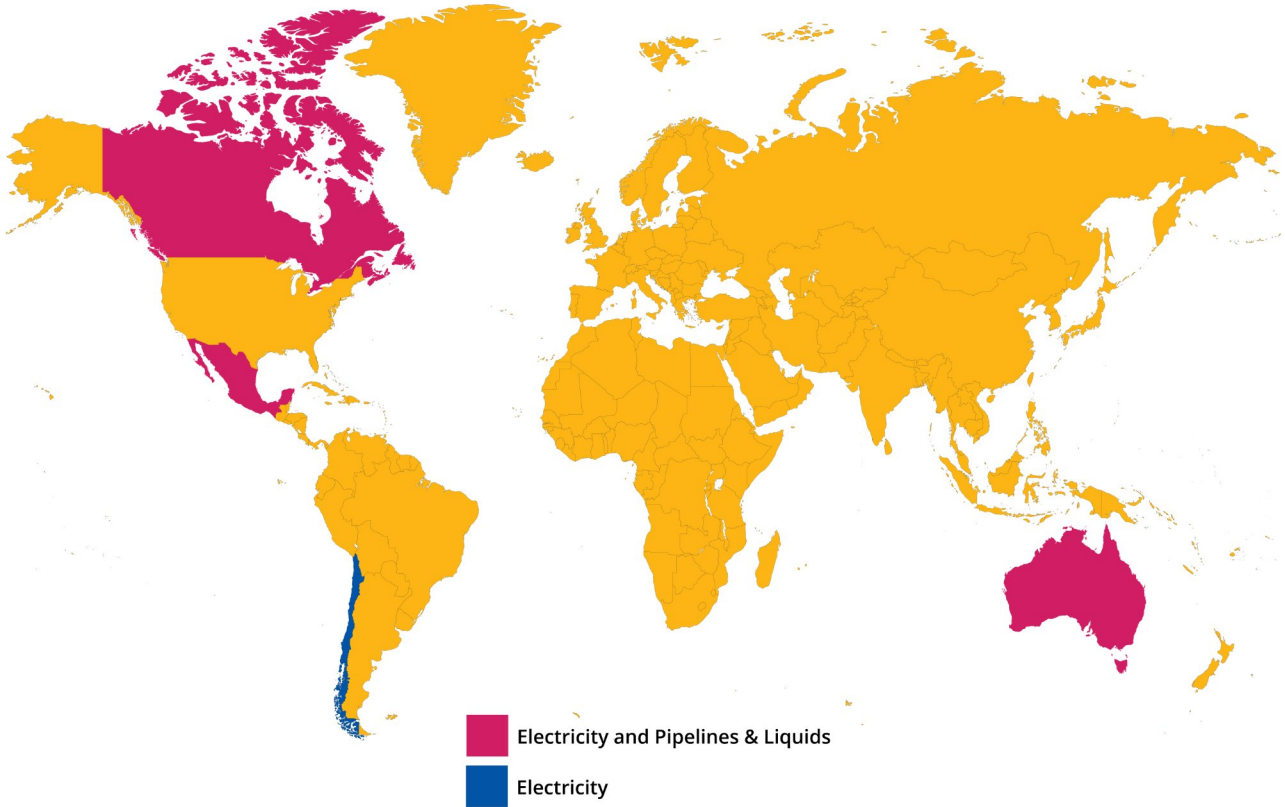
Canadian Utilities maintains a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community involvement creates the opportunity to develop partnerships with Indigenous and community groups that may be affected by projects and operations worldwide, and build ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. We also engage with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization. We encourage our employees to participate in community initiatives that will serve to benefit non-profit organizations through volunteer efforts, and the provision of products and services in-kind.

## **FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS**

Canadian Utilities' financial and operational achievements in 2019 relative to the strategies outlined above are included in this MD&A, the 2019 Consolidated Financial Statements and 2019 AIF. Further commentary regarding strategies and commitments to growth, financial strength, innovation, operational excellence, and community involvement will be provided in the forthcoming 2019 Management Proxy Circular, Year in Review, and Sustainability Report. The 2019 Management Proxy Circular also contains discussion of the Company's corporate governance practices.

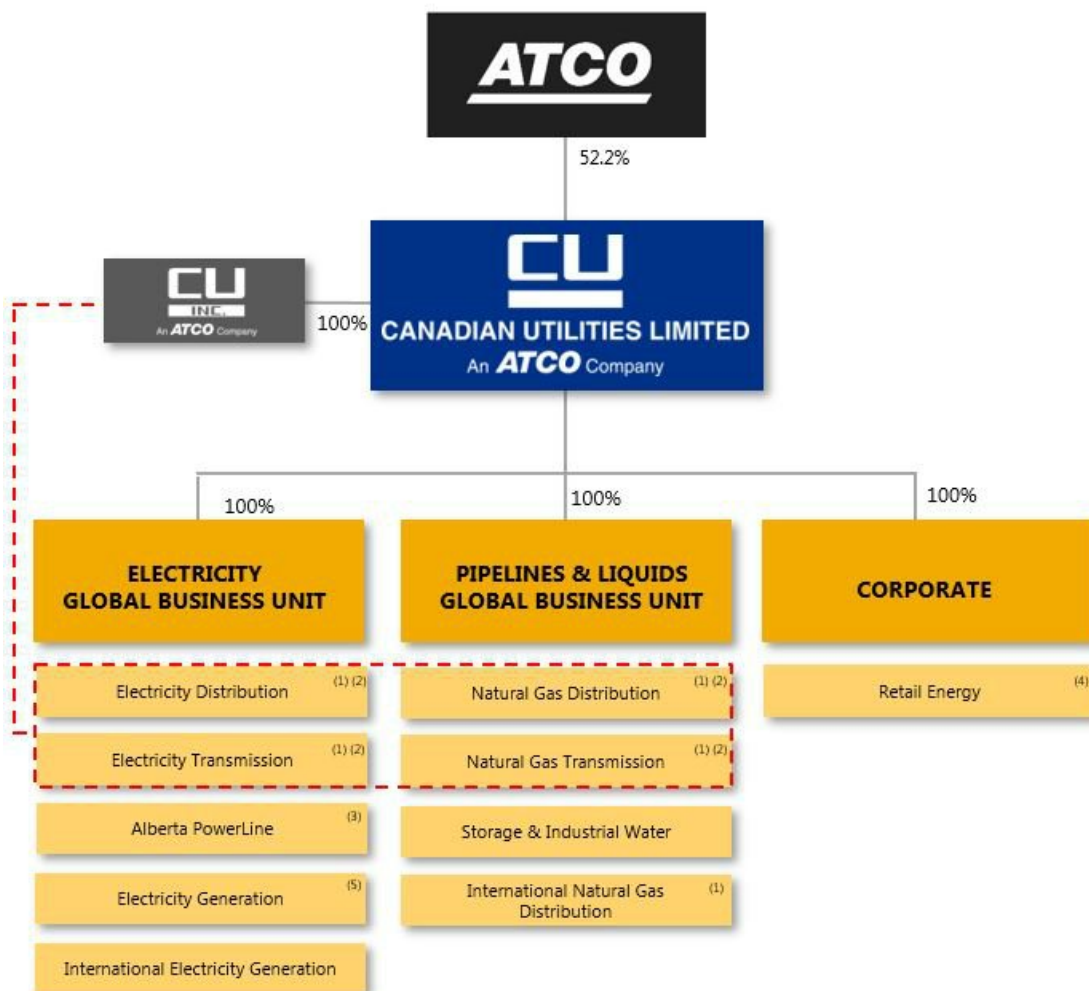
Canadian Utilities' website, [www.canadianutilities.com](http://www.canadianutilities.com), is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

# GLOBAL OPERATIONS



We are privileged to serve more than two million customers around the world, providing integrated, forward-thinking solutions in electricity, pipelines and liquids, retail energy, and responsible industrial water solutions. We power homes, businesses and communities, energize industries and deliver customer-focused energy infrastructure solutions.

# ORGANIZATIONAL STRUCTURE



- (1) Regulated businesses include Natural Gas Distribution, Natural Gas Transmission, International Natural Gas Distribution, Electricity Distribution, and Electricity Transmission.
- (2) CU Inc. includes Natural Gas Distribution, Natural Gas Transmission, Electricity Distribution, and Electricity Transmission.
- (3) Alberta PowerLine General Partner Ltd., the general partner of Alberta PowerLine Limited Partnership (Alberta PowerLine or APL), was a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent). In December of 2019, Canadian Utilities, along with Quanta Services Inc. completed the previously announced sale of APL. Canadian Utilities received aggregate proceeds of \$222 million for its interest in APL and will remain as the operator over its 35-year contract with the Alberta Electric System Operator.
- (4) Retail Energy, through ATCO Energy Ltd. (ATCOenergy), provides retail, commercial and industrial electricity and natural gas service in Alberta.
- (5) On September 30, 2019, Canadian Utilities announced the sale of its Canadian fossil fuel-based electricity generation portfolio for aggregate proceeds of \$821 million. The sale was completed in the fourth quarter of 2019.

The 2019 Consolidated Financial Statements include the accounts of Canadian Utilities, and its subsidiaries, including the equity investment in joint ventures and a proportionate share of joint operations.

The 2019 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

Canadian Utilities' website, [www.canadianutilities.com](http://www.canadianutilities.com), is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

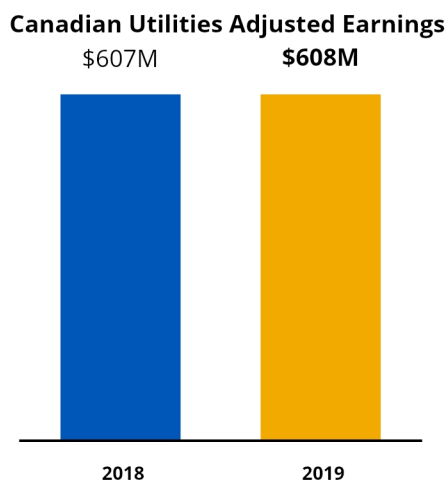


# COMPANY OVERVIEW AND OPERATING ENVIRONMENT

Canadian Utilities is a diversified global enterprise with assets of \$20 billion and approximately 4,600 employees engaged in Electricity, Pipelines & Liquids, and Retail Energy with a focus on generating long-term share owner value by investing in regulated utilities and long-term contracted energy infrastructure.

Although our roots in Canada are deep, and while the pioneering spirit of Alberta is woven into the fabric of our Company, we are increasingly focused on global prospects for growth. As we seek strategic opportunities to expand our global portfolio of utility and energy infrastructure investments, we continuously review our holdings to look for opportunities to monetize assets and increase our capacity for growth. In 2019, we completed two notable asset dispositions. In September 2019, Canadian Utilities sold its Canadian fossil fuel-based electricity generation business. In December 2019, we completed the sale of our 80 per cent interest in Alberta PowerLine. These transactions improve our financial strength and position Canadian Utilities to further grow, while reliably delivering operational excellence to customers at home and abroad.

Canadian Utilities achieved strong adjusted earnings of \$608 million in 2019 mainly due to ongoing growth in the regulated rate base and regulatory decisions in our Alberta Utilities, the continued implementation of cost efficiencies across the Company, and incremental earnings from two additional hydrocarbon storage caverns that became operational in the second quarter of 2018. Higher earnings were partially offset by forgone earnings from the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019 and lower earnings contributions from Alberta PowerLine due to the completion of construction activities in the first quarter of 2019.



## ELECTRICITY

The Electricity Global Business Unit's activities are conducted through two regulated businesses: electricity distribution and electricity transmission, and non-regulated electricity generation and transmission. Together these businesses provide electricity distribution, transmission, generation, and related infrastructure services.

### BUSINESS STRATEGY

Electricity's strategy is to grow its businesses through: investing in regulated electricity distribution and transmission, capitalizing on opportunities to provide long-term contracted electricity transmission services and renewable and natural gas-fired electricity generation.



*Electricity transmission towers, Alberta*

### **MARKET OPPORTUNITIES**

The electricity regulated businesses expect to see continued investment opportunities based on customer growth and system replacements. Expansion will be focused in select global markets, including Canada, Australia, Latin America and the U.S.

Electricity targets select markets with stable regulatory environments and rule of law, excellent long-term growth potential, and strategic fit with our existing asset base and complementary skills.

### **MARKET CHALLENGES**

Potential changes in macroeconomic conditions or government policy could slow the growth trajectory of these businesses.

## **Pipelines & Liquids**

The Pipelines & Liquids Global Business Unit's activities are conducted through three regulated businesses: natural gas distribution, natural gas transmission, and international natural gas distribution, and one non-regulated business: storage & industrial water. These businesses offer complementary products and services that enable them to deliver comprehensive natural gas distribution and transmission services, energy storage, and industrial water solutions to existing and new customers.

### **BUSINESS STRATEGY**

Pipelines & Liquids' strategy is to grow its businesses through investing in regulated natural gas distribution and transmission, and becoming a premier hydrocarbon liquids storage and industrial water infrastructure provider.



*Natural gas transmission control station, Drayton Valley, Alberta*

### **MARKET OPPORTUNITIES**

The pipelines and liquids regulated businesses expect to see continued growth based on forecasted customer growth and system replacements. Expansion of pipelines in Alberta is expected to increase the need for energy storage to manage supply and demand. Expansion will be focused in select global markets, including Canada, Australia, Latin America, and the U.S.

Pipelines & Liquids targets select markets with stable regulatory environments and rule of law, excellent long-term growth potential, and strategic fit with our existing asset base and complementary skills.

### **MARKET CHALLENGES**

Potential changes in macroeconomic conditions or government policy could slow the growth trajectory of these businesses.

# CANADIAN UTILITIES SCORECARD

The following scorecard outlines our performance in 2019.



Target Met



Target Partially Met



Target Not Met

## STRATEGIC PRIORITIES

### 2019 TARGET

### 2019 PERFORMANCE

#### INNOVATION

##### New and existing products and services

Explore and test new products and methods of energy delivery to meet customers' future needs.



In July, we officially opened the Clean Energy Innovation Hub in Jandakot, Western Australia. This hub uses solar renewable energy to produce hydrogen, enabling us to be part of the next energy wave with hydrogen, and repositioning the international natural gas distribution business as the energy mix evolves.

- Expand number of electric vehicle charging stations in Alberta



Canadian Utilities continued to expand its number of electric vehicle (EV) direct current, fast charging stations. A total of 15 charging stations have been installed and additional stations are planned for 2020.

- Reduce or replace diesel consumption with more energy efficient solutions for customers in remote communities



In 2019, Canadian Utilities successfully constructed and energized the Fort Chipewyan phase one 600-kW solar farm, which will displace 160,000 litres of diesel annually. Also in 2019, Canadian Utilities and Indigenous Partner Three Nations Energy obtained government funding and executed contracts to build an Indigenous owned phase two 2,200-kW solar farm, with a Canadian Utilities owned energy storage and microgrid controls system. The project is on track to be energized in October 2020.

ATCO Electric Yukon (AEY), in partnership with the Vuntut Gwitchin First Nation in Old Crow, Yukon, installed solar panels to offset diesel consumption in this fly-in only community. We helped facilitate the installation of the Nation's 940-kW solar array together with the AEY owned battery and microgrid controller. By the summer of 2020, the project will have the potential to save 190,000 litres of diesel fuel annually. This was the first Energy Purchase Agreement contract signed in the Yukon.

Demonstrate continuous improvement of existing products and services.



- Complete coal-to-natural gas conversion of Battle River unit 5.

In our natural gas and electric utility operations we have implemented remote monitoring technology, digitized stations and are in the process of implementing workforce and asset management systems, which will digitize our work processes, creating operational efficiencies and enable enhanced data collection from our infrastructure.

The conversion of coal-fired power generation to lower-emitting natural gas at the Battle River unit 5 Generating Station commenced in 2019. Conversion continued until the sale of the assets in the third quarter to Heartland Generation Ltd.

## STRATEGIC PRIORITIES

### 2019 TARGET

### 2019 PERFORMANCE

#### New and existing products and services

Launch eCommerce platform and digital strategy for ATCOenergy.



Launch of the ATCOenergy eCommerce platform was achieved in 2019.

ATCOenergy's digital strategy was a success in 2019 with a move to more targeted marketing through digital platforms. The digital platforms provide customer insights with respect to buying patterns, areas of interest, understanding of customer journeys and how best to adapt digital mediums to cater to customer requirements.

Explore and test new products and methods of energy delivery to meet customers' future needs.



In 2019, an innovation team was formed to assist in the execution of ATCO's transformation mandate: to create a culture and capability that is future-ready, aware, creative, competent, and agile. This team will aim to bring ATCO's strategic vision into reality.

## GROWTH

#### Regulated and long-term contracted capital investment

Invest \$1.2 billion across our Regulated Utilities and in long-term contracted assets.



Invested \$1.2 billion across our Regulated Utilities and long-term contracted assets in 2019 as planned.

- Complete construction of Alberta PowerLine by March 2019.



In March, Alberta PowerLine, a partnership between ATCO and Quanta Services, energized the Fort McMurray West 500-kv Transmission Line three months ahead of the contract schedule target of June, 2019, on-budget and with an impeccable safety record.

- Commence construction of natural gas cogeneration power plant in Mexico.



We began engineering and procurement activities in relation to the 26-MW La Laguna cogeneration power project in Mexico in partnership with RANMAN Energy. Total planned investment with the La Laguna project is approximately \$70 million.

Expand hydrocarbon and waste storage services.



In November, Canadian Utilities announced the expansion of our existing storage business at the ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta. The expansion will involve the development of a fifth hydrocarbon storage cavern and a pipeline that will connect the facility to the existing pipeline networks in the region.

#### Global expansion

Continue asset expansion into select global markets including Canada, Australia, South America, Mexico and the U.S.



In the fourth quarter of 2019, Canadian Utilities entered into a partnership with Impulso Capital, a Chilean developer, to build and operate the 18-MW Cabrero Solar project. This project, located in southern Chile, will provide clean solar energy to the Chilean electricity grid. The first 3-MW is under construction, and is expected to be operational in 2020. The remaining 15-MW is scheduled for completion in 2021. The total investment in this project is expected to be approximately \$24 million.

STRATEGIC  
PRIORITIES

2019 TARGET

2019 PERFORMANCE

**FINANCIAL STRENGTH**

<b>Credit rating</b>	Maintain investment grade credit rating.		<p>Maintained 'A' credit rating with a stable outlook with DBRS Limited.</p> <p>Maintained 'A-' credit rating with a stable outlook with Standard &amp; Poor's.</p> <p>We strengthened our balance sheet through the sale of the Canadian fossil fuel-based electricity generation assets and Alberta PowerLine which together generated more than \$1 billion of gross proceeds in 2019. The sale of Alberta PowerLine also removed approximately \$1.4 billion of debt from Canadian Utilities' balance sheet thereby improving our financial strength.</p>
<b>Access to capital markets</b>	Access capital at attractive rates.		<p>In 2019, we raised \$580 million in 30-year debentures at 2.96 per cent, the lowest long-term coupon achieved in the Company's history.</p>

**OPERATIONAL EXCELLENCE**

<b>Lost-time incident frequency: employees</b>	Continue improvement in our safety performance, in addition to comparing favourably to benchmark rates such as Alberta Occupational Health and Safety, U.S. private industry, and industry best practice rates for each of our global operating units.		<p>Canadian Utilities' lost-time incident frequency compares very favourably to benchmarks such as Alberta Occupational Health and Safety, U.S. private industry and industry best practice rates. Canadian Utilities achieved a 45 per cent reduction in the lost time incident rate in 2019 to 0.12 incidents/200,000 hours worked.</p>
<b>Total recordable incident frequency: employees</b>	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than in prior years.		<p>Canadian Utilities' total recordable incident frequency in 2019 was 2.15 incidents/200,000 hours worked which is an increase relative to 2018 results.</p>
<b>Customer satisfaction</b>	Streamline and gain operational efficiencies.		<p>Within the Alberta electricity and natural gas distribution businesses, more than 94 per cent of customers agreed that Canadian Utilities provides good service. Within our energy retail operations, 75 per cent of customers who interact with call centres are "very satisfied". These results compare favourably to industry averages and are consistent with previous years.</p>
<b>Organizational transformation</b>	<ul style="list-style-type: none"> <li>Continue to optimize ERP implementation.</li> </ul>		<p>In 2019, we continued to optimize the cloud-based Enterprise Resource Planning (ERP) system that was implemented in 2018. Moving from a highly customized environment to one with limited customizations improved the quarterly upgrade installation time and employee productivity. Optimization examples include the development of a standardized reporting catalogue, a reduction in the month end close from 13 days to 5 days, the creation of a standardized delegation of authority matrix, and a reduction in manual journal entries by 50 per cent.</p>
<b>Organizational transformation</b>	<ul style="list-style-type: none"> <li>Complete strategic review of Canadian electricity generation assets.</li> </ul>		<p>In the fourth quarter of 2019, following a strategic review, Canadian Utilities finalized the sale of its 2,276-MW Canadian fossil fuel-based electricity generation portfolio in a series of transactions for aggregate proceeds of \$821 million. Following the close of the transaction, Canadian Utilities continues to own 244-MW of electricity generation assets in Canada, Mexico and Australia. The remaining generation portfolio is 90 per cent contracted with an 8 year average contract life.</p>

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## STRATEGIC PRIORITIES

### 2019 TARGET

- Complete strategic review of Alberta PowerLine ownership interest.



### 2019 PERFORMANCE

In December of 2019, following a strategic review, Canadian Utilities, along with Quanta Services Inc. completed the sale of Alberta Powerline (APL), a partnership between Canadian Utilities (80 per cent) and Quanta Services Inc. (20 per cent). Canadian Utilities received aggregate proceeds of \$222 million. Canadian Utilities will remain as the operator of APL over its 35-year contract with the Alberta Electric System Operator.

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## COMMUNITY INVOLVEMENT

### Indigenous relations

Continue to work together with Indigenous communities to contribute to economic and social development in their communities.



ATCO awarded \$66,000 to 53 students across Canada for the ATCO Indigenous Education Awards Program.

Our Indigenous Relations team held 11 Corporate Indigenous Training sessions for 242 ATCO employees in eight locations across Alberta, Yukon and the Northwest Territories.

ATCO also sponsors the University of Calgary Indigenous Relations Leadership Certificate, a four day program which helps participants gain a better understanding of the issues facing Canada's Indigenous population today.

Seven Indigenous communities in Alberta purchased 40 per cent of Alberta PowerLine, a partnership between Canadian Utilities and Quanta Services. This investment enabled the communities to become direct owners and participants in Alberta's energy sector. We will continue to partner with Indigenous communities to establish maintenance and operational contracts over our 35-year contract as operator with the Alberta Electric System Operator.

In 2019, we opened the Six Seasons Garden at our Jandakot Operations Centre in Western Australia, with the objective to strengthen our relationships with Aboriginal and Torres Strait Islander Peoples. The Garden recognizes and celebrates the Noongar people, who have lived in the south-west of Western Australia for more than 45,000 years and are one of the largest Aboriginal cultural blocks in Australia.

In 2019, we launched the Child Nutrition Project in partnership with the non-profit organization, Mexico Tierra de Amaranto. We are working to ensure that elementary students in the Indigenous community of Mecuilca, in the state of Veracruz, receive the nutrition they need to be successful in school.

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## STRATEGIC PRIORITIES

### **ATCO EPIC (Employees Participating in Communities)**

## 2019 TARGET

Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.



## 2019 PERFORMANCE

With the combined efforts of our employees around the world, we pledged more than \$2.7 million to support hundreds of community charities through our annual ATCO EPIC campaign, taking the program's cumulative fundraising total to more than \$44 million since its inception in 2006.

ATCO made a gift in-kind donation of \$1.5 million to the Homes for Heroes Foundation and provided our expertise in the design, build, manufacture, delivery and placement of units on ATCO-supplied pile foundations.

ATCO's employees volunteered 7,731 hours of their time in the communities in which they work.



# STRATEGIC PRIORITIES FOR 2020

The following table outlines our strategic priorities for 2020.

## 2020 PRIORITIES

### INNOVATION

<b>New and existing products and services</b>	<p>Explore and test new products and methods of energy delivery to meet customers' future needs.</p> <ul style="list-style-type: none"> <li>• Continue to expand number of electric vehicle charging stations in Alberta.</li> <li>• Continue to reduce or replace diesel consumption with more energy efficient solutions for customers in remote communities.</li> </ul> <p>Demonstrate continuous improvement of existing products and services.</p>
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### GROWTH

<b>Regulated and long-term contracted capital investment</b>	Continue to invest across our Regulated Utilities and in long-term contracted assets.
<b>Global expansion</b>	<p>Continue expansion into select global markets including: Canada, Australia, Latin America, and the U.S.</p> <ul style="list-style-type: none"> <li>• Increase number of customers for international natural gas distribution in Australia.</li> </ul>

### FINANCIAL STRENGTH

<b>Credit rating</b>	Maintain investment grade credit rating.
<b>Access to capital markets</b>	Access capital at attractive rates.

### OPERATIONAL EXCELLENCE

<b>Lost-time incident frequency: employees</b>	Compare favourably to safety benchmarks.
<b>Total recordable incident frequency: employees</b>	
<b>Customer satisfaction</b>	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years.
<b>Organizational transformation</b>	<p>Streamline and gain operational efficiencies.</p> <ul style="list-style-type: none"> <li>• Continue to optimize enterprise resource planning, workforce and asset management, and computerized maintenance management systems.</li> </ul>

### COMMUNITY INVOLVEMENT

<b>Indigenous relations</b>	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.
<b>ATCO EPIC (Employees Participating in Communities)</b>	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.



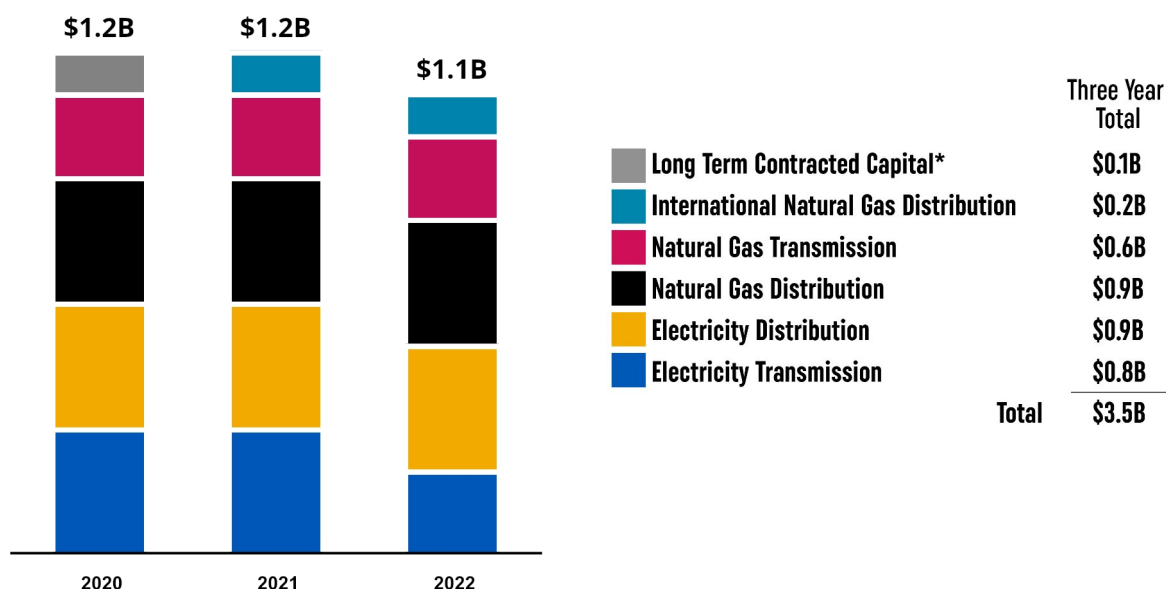
## CAPITAL INVESTMENT PLANS

In the 2020 to 2022 period, Canadian Utilities expects to invest \$3.5 billion in Regulated Utility and commercially secured energy infrastructure capital growth projects. This capital investment is expected to contribute significant earnings and cash flows and create long-term value for share owners.

The three year plan includes \$3.4 billion of planned capital investment in the Regulated Utilities. Electricity distribution and electricity transmission are planning to invest \$1.7 billion, and natural gas distribution, natural gas transmission and international natural distribution are planning to invest \$1.7 billion from 2020 to 2022.

In addition to capital investments in the Regulated Utilities, Canadian Utilities intends to invest \$0.1 billion in long-term contracted capital in a new hydrocarbon storage cavern and additional industrial water facilities in northern Alberta, and in a long-term contracted cogeneration facility in Mexico. Canadian Utilities is also building an 18-MW merchant solar generation project in Chile and continues to pursue various business development opportunities with long-term potential.

### Future Regulated Utility and Contracted Capital Investment



\*Includes the Company's proportionate share of investment in partnership interests.

# CORPORATE GOVERNANCE

Ensuring that our business operates in a transparent, ethical and accountable manner is at the core of in creating strong and sustainable value for our share owners and in promoting the Company's well-being over the long term.

We don't believe in a one-size fits all approach to governance. Our Board of Directors has designed and implemented a unique and effective system of checks and balances that recognize the need to provide autonomy to our various business units, while prudently managing our financial resources.

This fit-for-purpose approach to governance has worked exceedingly well over the years, providing our Board of Directors and senior management team with the foundation to create long-term intergenerational value for our share owners.

Following are some of the highlights of our model for corporate governance. For a more complete picture, please see the Governance section of the 2019 Management Proxy Circular, which will be available in March 2020.



*From left to right: Charles Wilson, Hector Rangel, Alexander Pourbaix, Robert Normand, James Simpson, Nancy Southern, Linda Southern-Heathcott, Matthias Bichsel, Loraine Charlton, Laura Reed, Wayne Wouters*

## Our Board of Directors

The role of our Board of Directors has evolved alongside our business, providing oversight to an organization with a growing global footprint and a diverse, yet complementary suite of premier products and services. The Board strives to ensure that its corporate governance practices provide for the effective stewardship of the company, and it regularly evaluates those practices to ensure they are in keeping with the highest standards.

Key elements of our corporate governance system include the oversight and diligence provided by the Board, the lead director, the Audit & Risk Committee and our Corporate Governance - Nomination, Compensation and Succession Committee (GOCOM). Although not required by securities laws, some of our governance tools, such as the use of Designated Audit Directors (DADs), also reinforce the effectiveness and rigor of our governance model.

Much like our business operations, the strength of our Board of Directors is due in no small part to the diverse nature of skills, talent and experience each member brings to the Board deliberations.

In 1995, Canadian Utilities was among the first public companies in Canada to introduce the concept of a lead director. Mr. James W. Simpson is the current lead director for Canadian Utilities, and was appointed to this position on May 4, 2006. The lead director provides the Board with the leadership necessary to ensure independent oversight of management. The lead director is an independent director and must be a member of GOCOM.

## Designated Audit Directors

Distinctly unique to ATCO and Canadian Utilities are the Designated Audit Directors who are directors of Canadian Utilities or ATCO Ltd. Each DAD is assigned to one of our Global Business Units to provide oversight based on their strengths and experience in various industry sectors.

Each DAD meets quarterly with the relevant leadership of their Global Business Unit or business division, and holds annual meetings with internal and external auditors. In addition, they review the financial statements and operating results, discuss risks with management, and report on both operating results and risks to our Audit & Risk Committee.

# PERFORMANCE OVERVIEW

## FINANCIAL METRICS

The following chart summarizes key financial metrics associated with our financial performance.

	Year Ended December 31		
<i>(\$ millions, except per share data and outstanding shares)</i>	2019	2018	2017
<b>Key Financial Metrics</b>			
Revenues	<b>3,905</b>	4,377	4,085
Adjusted earnings <sup>(1)</sup>	<b>608</b>	607	602
Electricity	<b>424</b>	434	397
Pipelines & Liquids	<b>261</b>	247	273
Corporate & Other	<b>(77)</b>	(74)	(69)
Intersegment Eliminations	–	–	1
Adjusted earnings (\$ per share) <sup>(1)</sup>	<b>2.23</b>	2.24	2.23
Earnings attributable to equity owners of the Company	<b>951</b>	634	514
Earnings attributable to Class A and Class B shares	<b>884</b>	567	447
Earnings attributable to Class A and Class B shares (\$ per share)	<b>3.24</b>	2.08	1.66
Total assets	<b>20,044</b>	21,819	20,839
Long-term debt and non-recourse long-term debt	<b>8,966</b>	10,305	9,915
Equity attributable to equity owners of the Company	<b>6,734</b>	6,375	6,153
Cash dividends declared per Class A and Class B share (\$ per share)	<b>1.69</b>	1.57	1.43
Funds generated by operations <sup>(1)</sup>	<b>1,797</b>	1,782	1,761
Capital investment <sup>(1)</sup>	<b>1,226</b>	1,951	1,703
<b>Other Financial Metrics</b>			
Weighted average Class A and Class B shares outstanding ( <i>thousands</i> ):			
Basic	<b>272,630</b>	271,464	269,438
Diluted	<b>273,211</b>	272,066	270,055

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

## REVENUES

Revenues in 2019 were \$3,905 million, \$472 million lower than in 2018. Lower revenues were mainly due to the completion of construction activity at APL in the first quarter of 2019 and forgone revenue following the sale of the Canadian fossil fuel-based electricity generation portfolio in the third quarter of 2019. Lower revenues were partially offset by higher flow-through revenues in natural gas distribution for third party franchise and transmission fees, and growth in the regulated rate base.

## ADJUSTED EARNINGS

Our adjusted earnings in 2019 were \$608 million, or \$2.23 per share compared to \$607 million, or \$2.24 per share for the same period in 2018. Higher 2019 earnings were largely due to ongoing growth in the regulated rate base and regulatory decisions in our Alberta Utilities, the continued implementation of cost efficiencies across the Company, and incremental earnings from two additional hydrocarbon storage caverns that became operational in the second quarter of 2018.

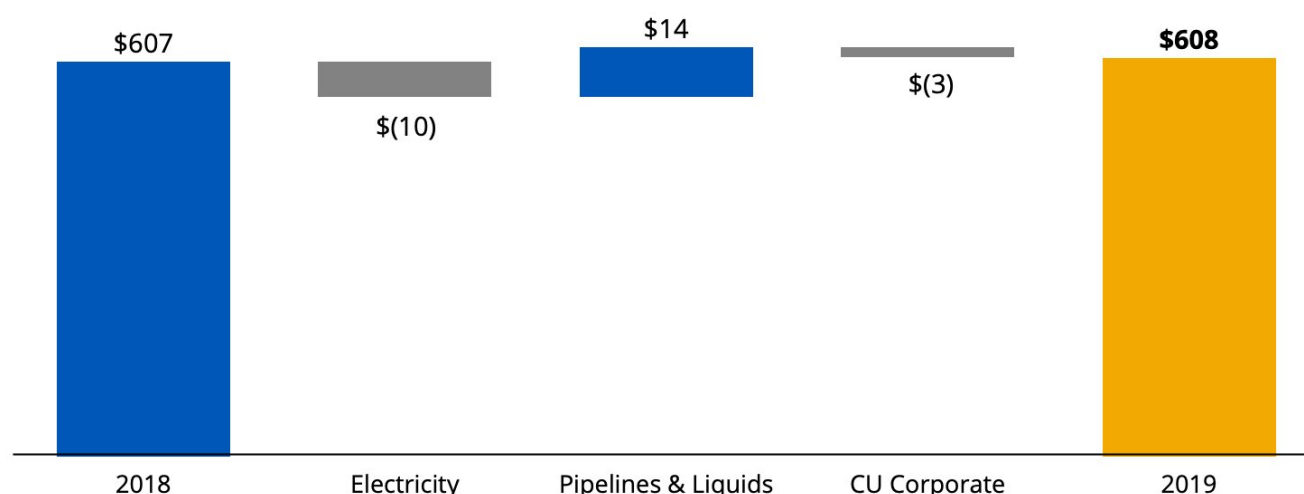
The primary drivers of adjusted earnings results were as follows:

- Electricity earnings in 2019 were \$10 million lower than in 2018. Lower earnings were mainly due to favorable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA and the associated availability incentive and performance payments, and the forgone earnings from the sale of the

Canadian fossil fuel-based electricity generation business in the third quarter of 2019. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 general tariff application (GTA) decision which was received in the second quarter of 2019, overall cost efficiencies and lower income taxes.

- Pipelines & Liquids recorded adjusted earnings of \$261 million in 2019, \$14 million higher than in 2018. Higher earnings were mainly due to ongoing growth in the regulated rate base, cost efficiencies, incremental earnings from hydrocarbon storage, and lower income taxes.
- Canadian Utilities Corporate and Other adjusted earnings for 2019 were \$3 million lower compared to the same period in 2018 mainly due to higher real estate expenses and higher interest expenses no longer recoverable due to the sale of the Canadian fossil-fuel generation assets in the third quarter of 2019.

### Adjusted Earnings (\$ Millions)



Additional detail on the financial performance of our Global Business Units is discussed in the Global Business Unit Performance section of this MD&A.

#### EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Earnings attributable to equity owners of the Company were \$951 million in 2019, \$317 million higher compared to 2018. Earnings attributable to equity owners of the Company include timing adjustments related to rate-regulated activities, unrealized gains or losses on mark-to-market forward and swap commodity contracts, one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations. These items are not included in adjusted earnings.

In 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio and ownership interest in Alberta PowerLine. In the full year of 2019, the sales resulted in an aggregate gain of \$125 million (after-tax). As this gain is related to a series of one-time transactions, it is excluded from adjusted earnings.

Earnings attributable to equity owners of the Company are earnings attributable to Class A and B shares plus dividends on equity preferred shares of the Company. More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Equity Owners of the Company section of this MD&A.

#### ASSETS, DEBT & EQUITY

Total assets of \$20 billion in 2019 were \$2 billion lower compared to 2018. Long-term debt decreased by approximately \$1.4 billion in 2019 compared to 2018. These changes were mainly due to the sale of Canadian Utilities' ownership

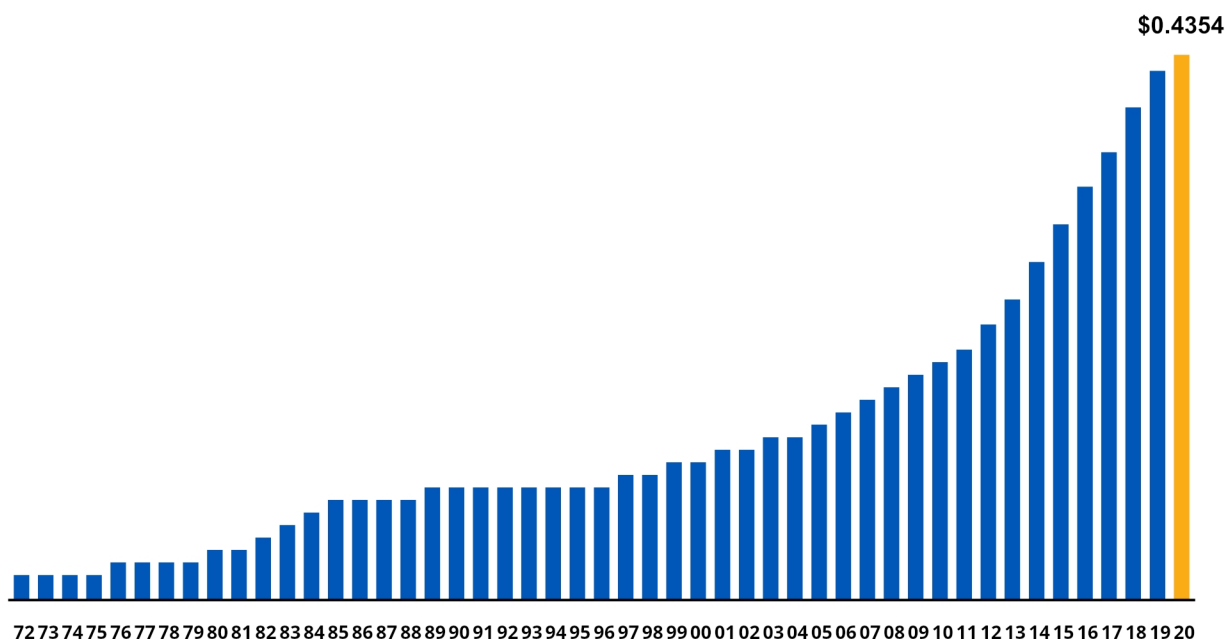
interest in Alberta PowerLine and sale of its Canadian fossil fuel-based electricity generation business. Class A and Class B Share owners' equity increased by \$317 million in 2019 compared to the prior year mainly due to 2019 earnings, partially offset by dividends paid to share owners.

**COMMON SHARE DIVIDENDS**

On January 9, 2020, the Board of Directors declared a first quarter dividend of 43.54 cents per share. Dividends paid to Class A and Class B share owners totaled \$462 million in 2019.

We have increased our common share dividend each year since 1972, the longest track-record of annual increases of any publicly traded Canadian company.

**Quarterly Dividend Rate 1972 - 2020  
(dollars per share)**



**FUNDS GENERATED BY OPERATIONS**

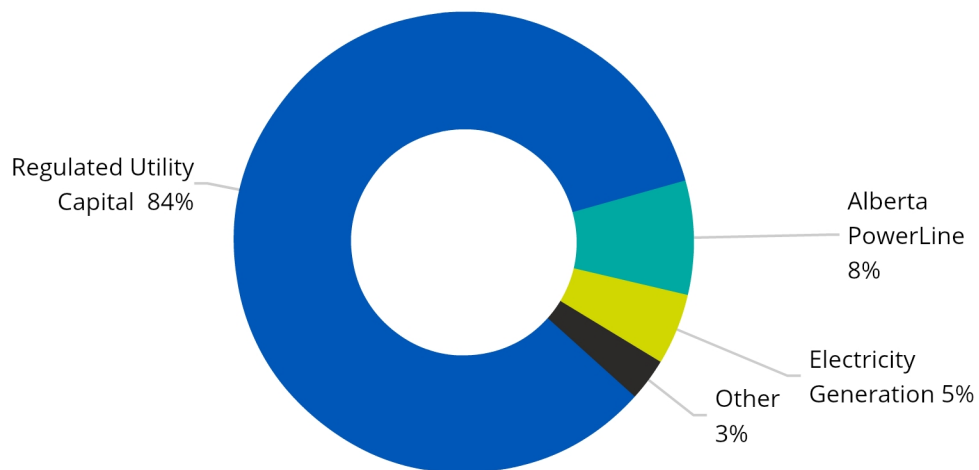
Funds generated by operations were \$1.8 billion in 2019, \$15 million higher than in 2018. The increase was mainly due to higher funds generated by operations in the Alberta Utilities, partially offset by lower funds generated as a result of the sale of the Canadian fossil-fuel based electricity business in the third quarter of 2019.

**CAPITAL INVESTMENT**

Total capital investment of \$1,226 million in 2019 was \$725 million lower than the previous year mainly due to the completion of construction activities in Alberta PowerLine in the first quarter of 2019 and the acquisition of a long-term contracted hydroelectric power station in Veracruz, Mexico in 2018.

Capital spending in the Regulated Utilities accounted for \$1,035 million or 84 per cent of total capital invested in 2019. The remaining \$191 million or 16 per cent invested in 2019 included the completion of construction at Alberta PowerLine and planned capital maintenance in the electricity generation fleet.

### Capital Investment In 2019



# GLOBAL BUSINESS UNIT PERFORMANCE



## REVENUES

Revenues of \$419 million in the fourth quarter, and \$2,155 million in the full year of 2019, were \$218 million and \$703 million lower than the same periods in 2018. Lower revenues were mainly due to reduced construction activity at Alberta Powerline, forgone revenue associated with the sale of the Canadian fossil fuel-based electricity generation portfolio in the third quarter of 2019, and the Balancing Pool's termination of the Battle River unit 5 PPA in the third quarter of 2018. Lower revenues were partially offset by higher flow through revenues in electricity transmission for the amortization of customer contributions in the fourth quarter of 2019.

## ADJUSTED EARNINGS

(\$ millions)	Three Months Ended December 31			Year Ended December 31		
	2019	2018	Change	2019	2018	Change
<b>Regulated Electricity</b>						
Electricity Distribution	32	26	6	127	112	15
Electricity Transmission	51	42	9	202	176	26
<b>Total Regulated Electricity Adjusted Earnings</b>	<b>83</b>	68	15	<b>329</b>	288	41
<b>Non-regulated Electricity</b>						
Independent Power Plants	–	11	(11)	31	17	14
Thermal PPA Plants	–	5	(5)	28	82	(54)
International Electricity Generation	4	3	1	11	12	(1)
Alberta PowerLine	3	16	(13)	25	35	(10)
<b>Total Non-regulated Electricity Adjusted Earnings</b>	<b>7</b>	35	(28)	<b>95</b>	146	(51)
<b>Total Electricity Adjusted Earnings</b>	<b>90</b>	103	(13)	<b>424</b>	434	(10)

Electricity earnings of \$90 million in the fourth quarter of 2019 were \$13 million lower than the same period in 2018. Lower earnings were mainly as a result of the forgone earnings from the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019 and lower earnings contributions from Alberta PowerLine mainly due to the completion of construction activities in the first quarter of 2019. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 general tariff application (GTA) decision which was received in July 2019, overall cost efficiencies and lower income taxes.

Electricity earnings of \$424 million in 2019 were \$10 million lower than in 2018. Lower earnings were mainly due to favourable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA and the associated availability incentive and performance payments, forgone earnings from the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019, and lower earnings contributions from Alberta PowerLine mainly due to the completion on construction activities in the first quarter of

2019. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 GTA decision which was received in July 2019, overall cost efficiencies and lower income taxes.

## **REGULATED ELECTRICITY**

Regulated Electricity provides regulated electricity distribution, transmission and distributed generation mainly in northern and central east Alberta, the Yukon and the Northwest Territories.

### **Electricity Distribution**

In the fourth quarter of 2019, electricity distribution adjusted earnings of \$32 million were \$6 million higher compared to the same period in 2018. Higher earnings were mainly due to cost efficiencies and lower income taxes.

In 2019, electricity distribution adjusted earnings of \$127 million were \$15 million higher compared to 2018. Higher earnings were mainly due to the ongoing implementation of cost efficiencies, lower income taxes, and continued growth in the rate base.

### **Electricity Transmission**

Electricity transmission recorded adjusted earnings of \$51 million in the fourth quarter of 2019 and \$202 million for the full year 2019, \$9 million and \$26 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the impact of the 2018-2019 GTA decision received in July 2019 which approved higher rates for 2018 and 2019, as well as costs efficiencies and lower income taxes.

## **NON-REGULATED ELECTRICITY**

Non-regulated electricity activities supply electricity from hydroelectric and natural gas generating plants in western Canada, Australia and Mexico and non-regulated electricity transmission in Alberta.

### **Independent Power Plants**

Independent Power Plants recorded adjusted earnings of nil in the fourth quarter of 2019, \$11 million lower than the same period in 2018. Lower earnings were mainly due to the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019. Lower earnings in the fourth quarter of 2019 were also due to earnings associated with the sale of the Barking Power assets that were recognized in the fourth quarter of 2018.

Independent Power Plants recorded adjusted earnings of \$31 million in 2019, \$14 million higher compared to 2018. Higher earnings were mainly due to increased market prices in the first nine months of 2019 and cost efficiencies, partially offset by higher planned maintenance costs in the first nine months of 2019 and earnings associated with the sale of the Barking Power assets in the fourth quarter of 2018.

### **Thermal PPA Plants**

Thermal PPA Plants recorded adjusted earnings of nil in the fourth quarter of 2019 as a result of the sale of the Canadian fossil fuel-based portfolio in the third quarter of 2019.

Earnings of \$28 million in 2019, were \$54 million lower compared to the same period in 2018. Lower earnings were mainly due to favourable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA, and forgone earnings associated with the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019.

### **International Electricity Generation**

International electricity generation supplies electricity in Australia and Mexico. In Australia, two natural gas-fired generation plants supply electricity in Australia: the Osborne plant in South Australia and the Karratha plant in Western Australia. Source Energy Co. also provides energy solutions to residential and commercial customers in Australia using a combination of grid electricity and solar energy. In Mexico, electricity is supplied from a distributed electricity generation station near San Luis Potosí and a hydroelectric generation station near Veracruz.

International electricity generation adjusted earnings of \$4 million in the fourth quarter of 2019 were \$1 million higher compared to the same period in 2018. Higher earnings were mainly due to the earnings impact of an unplanned outage at the Osborne plant in the fourth quarter of 2018.



International electricity generation adjusted earnings of \$11 million in 2019 were \$1 million lower compared to 2018. Lower earnings were mainly due to the adverse impact of the new Osborne Power Purchase Agreement which came into effect in December 2018. The five-year Osborne PPA extension agreement included lower pricing terms than the prior PPA agreement.

### **Alberta PowerLine**

Prior to its sale, Alberta PowerLine (APL) was a partnership between Canadian Utilities (80 per cent) and Quanta Services, Inc. (20 per cent), with a 35-year contract from the Alberta Electric System Operator (AESO) to design, build, own, and operate the 500-km, Fort McMurray West 500-kV Transmission project, running from Wabamun, near Edmonton to Fort McMurray, Alberta.

APL's adjusted earnings of \$3 million in the fourth quarter of 2019 were \$13 million lower compared to the same period in 2018. Lower earnings were mainly due to an Early Energization Incentive recorded in fourth quarter of 2018 and the completion of construction activities in the first quarter of 2019

APL's adjusted earnings of \$25 million in the full year of 2019 were \$10 million lower than in 2018 mainly due to an Early Energization Incentive recorded in fourth quarter of 2018, and the completion of construction activities in the first quarter of 2019, partially offset by lower income taxes from a lower Alberta corporate income tax rate and higher service concession arrangement interest income

## **ELECTRICITY RECENT DEVELOPMENTS**

### **Sale of Canadian Fossil Fuel-Based Electricity Generation Business**

In the fourth quarter of 2019, Canadian Utilities finalized the sale of its 2,276-MW Canadian fossil fuel-based electricity generation portfolio in a series of transactions. In September, Canadian Utilities sold 10 partly- or fully-owned natural gas-fired and coal-fired electricity generation assets in Alberta and BC to Heartland Generation Ltd., an affiliate of Energy Capital Partners. In August, Canadian Utilities sold its 50 per cent ownership interest in the 580-MW Brighton Beach joint venture, located in Windsor, Ontario, to Ontario Power Generation Inc. In July, Canadian Utilities completed the sale of its 50 per cent ownership interest in the 260-MW Cory Cogeneration Station to SaskPower International. Canadian Utilities received \$821 million of aggregate proceeds on the sale.

Following the close of the transactions, Canadian Utilities continues to own 244-MW of electricity generation assets in Canada, Mexico and Australia that are 90 per cent contracted with a weighted average contract term of 8 years.

### **Sale of ASHCOR Technologies**

On December 31, 2019, Canadian Utilities sold its 100 per cent investment in ASHCOR Technologies Ltd. (Ashcor), an Alberta-based company engaged in marketing fly ash, to ATCO for aggregate consideration of \$35 million. Ashcor was previously reported in the Electricity segment in the Thermal PPA business line.

### **Sale of Alberta PowerLine**

In March 2019, APL energized the Fort McMurray West 500-kV Transmission Line, three months ahead of schedule, on-budget and with an impeccable safety record.

In the second quarter of 2019, Canadian Utilities and Quanta Services Inc. entered into agreements to sell APL. Canadian Utilities offered an opportunity for Indigenous communities along the electricity transmission line route to obtain up to a 40 per cent equity interest.

With the completion of the sale in December 2019, seven Indigenous communities in Alberta have a combined 40 per cent equity ownership in this essential Canadian energy infrastructure project: Athabasca Chipewyan First Nation, Bigstone Cree Nation, Gunn Metis Local 55, Mikisew Cree First Nation, by way of its business arm, the Mikisew Group of Companies, Paul First Nation, Sawridge First Nation and Sucker Creek First Nation.

The remaining 60 per cent of APL was acquired by a consortium including TD Asset Management Inc., for and on behalf of TD Greystone Infrastructure Fund (Global Master) L.P., and IST3 Investment Foundation acting on behalf of its investment group IST3 Infrastruktur Global. The sale transaction also included the assumption of \$1.4 billion of APL debt.

Canadian Utilities received aggregate proceeds of \$222 million for its interest in APL and will remain as the operator of APL over its 35-year contract with the Alberta Electric System Operator.

#### **Chile Distribution-Connected Solar Generation Facility**

In the fourth quarter of 2019, Canadian Utilities entered into a partnership with Impulso Capital, a Chilean developer, to build and operate the 18-MW Cabrero Solar project. This project, located in southern Chile, will provide clean solar energy to the Chilean electricity grid. The first 3-MW is under construction, and is expected to be operational in 2020. The remaining 15-MW is scheduled for completion in 2021. The total investment in this project is expected to be approximately \$24 million.



## REVENUES

Pipelines & Liquids revenues of \$483 million in the fourth quarter and \$1,649 million in the full year of 2019 were \$100 million and \$179 million higher than the same periods in 2018. Higher revenues were mainly due to higher flow-through revenues in natural gas distribution for third party franchise and transmission fees, and higher revenue from growth in the regulated rate base and number of natural gas distribution customers.

## ADJUSTED EARNINGS

(\$ millions)	Three Months Ended December 31			Year Ended December 31		
	2019	2018	Change	2019	2018	Change
<b>Regulated Pipelines &amp; Liquids</b>						
Natural Gas Distribution	62	64	(2)	119	110	9
Natural Gas Transmission	18	19	(1)	75	72	3
International Natural Gas Distribution	13	12	1	52	55	(3)
<b>Total Regulated Pipelines &amp; Liquids Adjusted Earnings</b>	<b>93</b>	95	(2)	<b>246</b>	237	9
<b>Non-regulated Pipelines &amp; Liquids</b>						
Storage & Industrial Water	9	7	2	15	10	5
<b>Total Pipelines &amp; Liquids Adjusted Earnings</b>	<b>102</b>	102	-	<b>261</b>	247	14

Pipelines & Liquids adjusted earnings of \$102 million in the fourth quarter of 2019 were comparable to the same period in 2018. Increased earnings due to higher demand and pricing for natural gas storage services and cost efficiencies were offset by the timing of operations and maintenance costs in natural gas distribution and transmission.

Pipelines & Liquids recorded adjusted earnings of \$261 million in 2019, \$14 million higher than in 2018. Higher earnings were mainly due to ongoing growth in the regulated rate base, cost efficiencies, incremental earnings from hydrocarbon storage, and lower income taxes.

Detailed information about the activities and financial results of Pipelines & Liquids' businesses is provided in the following sections.

## REGULATED PIPELINES & LIQUIDS

### Natural Gas Distribution

Natural gas distribution serves municipal, residential, business and industrial customers throughout Alberta and in the Lloydminster area of Saskatchewan.

Natural gas distribution recorded earnings of \$62 million in the fourth quarter of 2019, \$2 million lower than the same period in 2018. Lower earnings were mainly due to the timing of operations and maintenance costs.

Natural gas distribution recorded adjusted earnings of \$119 million in 2019, \$9 million higher than in 2018. Higher earnings were mainly due to cost efficiencies, ongoing growth in the rate base and customers, and lower income taxes.

## **Natural Gas Transmission**

Natural gas transmission receives natural gas on its pipeline system from various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province of Alberta or to other pipeline systems, primarily for export out of the province.

Natural gas transmission recorded earnings of \$18 million in the fourth quarter of 2019, \$1 million lower than the same period in 2018. Lower adjusted earnings were mainly due to the timing of operations and maintenance costs.

Natural gas transmission recorded adjusted earnings of \$75 million in 2019, \$3 million higher than in 2018. Higher adjusted earnings were mainly due to continued growth in the rate base.

## **International Natural Gas Distribution**

International natural gas distribution is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

In the fourth quarter of 2019, international natural gas distribution adjusted earnings of \$13 million were \$1 million higher than the same period in 2018. Higher adjusted earnings were mainly due to rate base growth and cost efficiencies.

The international natural gas distribution business recorded adjusted earnings of \$52 million in 2019, \$3 million lower than in 2018, mainly due to a difference between inflation rates in the first quarters of 2018 and 2019. The published inflation rate for the first quarter of 2019, when applied to the rate of return calculations, produced a reduction to the revenues and earnings in 2019.

## **NON-REGULATED PIPELINES & LIQUIDS**

### **Storage & Industrial Water**

Storage & industrial water provides non-regulated natural gas storage and transmission activities, hydrocarbon storage, and industrial water services in Alberta.

The storage & industrial water business recorded adjusted earnings of \$9 million in the fourth quarter of 2019, \$2 million higher than the same period in 2018 mainly due to higher demand and pricing for natural gas storage services and cost efficiencies.

Storage & industrial water recorded adjusted earnings of \$15 million 2019, \$5 million higher than in 2018. Higher earnings were mainly due to cost efficiencies, incremental earnings from two additional hydrocarbon storage caverns that became operational in the second quarter of 2018, and lower income taxes.

## **PIPELINES & LIQUIDS RECENT DEVELOPMENTS**

### **Urban Pipelines Replacement Program**

The Urban Pipelines Replacement (UPR) program is replacing and relocating aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth. Construction is expected to be complete in 2020 and the total cost of the UPR program is estimated to be approximately \$900 million. Natural gas distribution and natural gas transmission have invested \$795 million in the UPR program since its inception.

### **Mains Replacement Program**

Natural gas distribution has two mains replacement programs which were approved in 2011, the plastic mains replacement and the steel mains program. The plastic mains replacement includes 8,000-km of polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe that are planned for replacement by 2031. Natural gas distribution has replaced 2,015-km of PVC and PE pipe since the approval of this program. The steel mains program includes 9,000-km of steel pipe that is monitored and continually evaluated for replacement based on the performance history. Natural gas distribution has replaced 327-km of steel pipe since the approval of this program.

## **International Natural Gas Transmission - Mexico Tula Pipeline**

In 2014, Canadian Utilities was awarded a 25-year Transportation Services Agreement with the Comisión Federal De Electricidad (CFE) to design, build, own and operate a 16-km natural gas pipeline near the town of Tula in the state of Hidalgo, Mexico. Canadian Utilities is involved in a number of disputes arising from landowner and communal landholder claims against the project. We continue to work with the Government of Mexico and other parties to achieve a timely resolution of these disputes.

## **Hydrocarbon Storage**

In the fourth quarter of 2019, storage & industrial water secured long-term contracts for a fifth salt cavern storage facility at the ATCO Heartland Energy Centre. As well, we secured long-term contracts for the construction and operation of a pipeline connecting the new salt cavern facility to existing pipelines in the area for receipt and delivery of hydrocarbon products. Construction began in the fourth quarter of 2019, with full operation targeted for late 2021.

## **Industrial Water**

In the fourth quarter of 2017, Canadian Utilities entered into a long-term commercial agreement with Inter Pipeline Ltd. to provide water services to Inter Pipeline's integrated propane dehydrogenation and polypropylene plant to be known as the Heartland Petrochemical Complex. Construction activities began in 2019 and are expected to be complete in the second quarter of 2020.

## **Pembina-Keephills Transmission Pipeline**

In August 2018, natural gas transmission filed a facilities application requesting approval for the installation of the Pembina-Keephills transmission pipeline. The 59-km high-pressure natural gas pipeline supports coal-to-gas conversion of power producers in the Genesee and surrounding areas of Alberta with the capacity to deliver up to 550-TJ per day. A decision was received on August 6, 2019 approving the project as filed. Construction has commenced and the pipeline is expected to be in service by mid-2020. The estimated cost to construct this project is approximately \$230 million and is included in natural gas transmission's three year capital investment plan.



*Pembina-Keephills transmission pipeline construction, near Wabamun Lake, Alberta*



## CANADIAN UTILITIES CORPORATE & OTHER

Canadian Utilities' Corporate & Other segment includes Retail Energy through ATCOenergy, launched in 2016 to provide retail electricity and natural gas services in Alberta. Corporate & Other also includes the global corporate head office in Calgary, Canada, the Australia corporate head office in Perth, Australia and the Mexico corporate head office in Mexico City, Mexico. Canadian Utilities Corporate & Other includes CU Inc. and Canadian Utilities preferred share dividend and debt expenses.

### ADJUSTED EARNINGS

(\$ millions)	Three Months Ended December 31			Year Ended December 31		
	2019	2018	Change	2019	2018	Change
<b>Canadian Utilities Corporate &amp; Other</b>	<b>(16)</b>	(18)	2	<b>(77)</b>	(74)	(3)

Including intersegment eliminations, Canadian Utilities Corporate & Other adjusted earnings in the fourth quarter and full year of 2019 were \$2 million higher compared to the same period in 2018 mainly due to timing of certain other expenses.

Canadian Utilities Corporate and Other adjusted earnings for 2019 were \$3 million lower compared to the same period in 2018 mainly due to higher real estate expenses and higher interest expenses no longer recoverable due to the sale of the Canadian fossil-fuel generation assets in the third quarter of 2019.

# REGULATORY DEVELOPMENTS

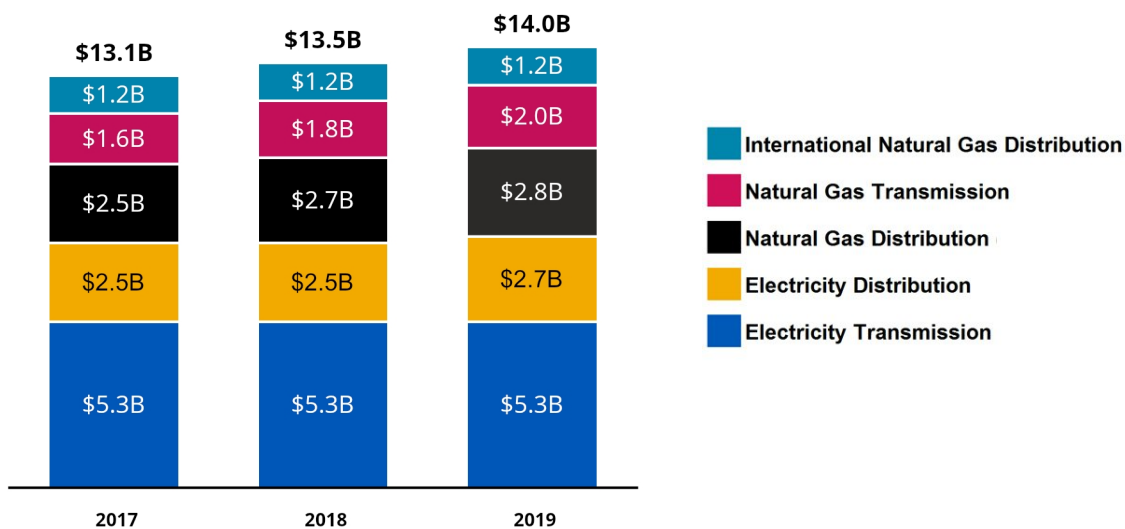
The business operations of electricity distribution, electricity transmission, natural gas distribution and natural gas transmission are regulated mainly by the Alberta Utilities Commission (AUC). The AUC administers acts and regulations covering such matters as rates, financing and service area.

Natural gas transmission and electricity transmission operate under cost of service (COS) regulation. Under this model, the regulator establishes the revenues to provide for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as mid-year rate base. Growth in mid-year rate base is a leading indicator of the business' earnings trend, depending on changes in the equity ratio of the mid-year rate base and the rate of return on common equity.

Natural gas distribution and electricity distribution operate under performance based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation less an estimated amount for productivity improvements. The AUC reviews the utilities' results annually to ensure the rate of return on common equity is within certain upper and lower boundaries. To do these calculations, the AUC reviews mid-year rate base. For this reason, growth in mid-year rate base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs based on the formula that adjusts rates for inflation and productivity improvements.

International natural gas distribution is regulated mainly by the Economic Regulation Authority (ERA) of Western Australia. International natural gas distribution operates under incentive based regulation (IBR) under which the ERA establishes the prices for a five-year period to recover a return on forecasted rate base, including income taxes, depreciation on the forecasted rate base, and forecasted operating costs based on forecasted throughput. For this reason, growth in mid-year rate base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs within approved forecasts.

**Regulated Utilities Mid-Year Rate Base**





## GENERIC COST OF CAPITAL (GCOC)

In August 2018, the AUC issued a decision approving a Return on Equity (ROE) of 8.5 per cent and capital structure of 37 per cent equity for the 2018, 2019 and 2020 periods for all Alberta utilities.

The following table contains the ROE and deemed common equity ratios resulting from the most recent GCOC decisions and also contains the mid-year rate base for each of Canadian Utilities' Alberta-based utilities.

	Year	AUC Decision	Rate of Return on Common Equity (%) <sup>(1)</sup>	Common Equity Ratio (%) <sup>(2)</sup>	Mid-Year Rate Base (\$ millions)
<b>Electricity Distribution</b>	<b>2019</b>	<b>2018 GCOC <sup>(4)</sup></b>	<b>8.50</b>	<b>37.0</b>	<b>2,669 <sup>(5)</sup></b>
	2018	2018 GCOC <sup>(4)</sup>	8.50	37.0	2,498 <sup>(6)</sup>
	2017	2016 GCOC <sup>(3)</sup>	8.50	37.0	2,471 <sup>(7)</sup>
<b>Electricity Transmission</b>	<b>2019</b>	<b>2018 GCOC <sup>(4)</sup></b>	<b>8.50</b>	<b>37.0</b>	<b>5,262 <sup>(8)</sup></b>
	2018	2018 GCOC <sup>(4)</sup>	8.50	37.0	5,280 <sup>(6)</sup>
	2017	2016 GCOC <sup>(3)</sup>	8.50	37.0	5,287 <sup>(7)</sup>
<b>Natural Gas Distribution</b>	<b>2019</b>	<b>2018 GCOC <sup>(4)</sup></b>	<b>8.50</b>	<b>37.0</b>	<b>2,847 <sup>(5)</sup></b>
	2018	2018 GCOC <sup>(4)</sup>	8.50	37.0	2,715 <sup>(6)</sup>
	2017	2016 GCOC <sup>(3)</sup>	8.50	37.0	2,549 <sup>(7)</sup>
<b>Natural Gas Transmission</b>	<b>2019</b>	<b>2018 GCOC <sup>(4)</sup></b>	<b>8.50</b>	<b>37.0</b>	<b>1,971 <sup>(9)</sup></b>
	2018	2018 GCOC <sup>(4)</sup>	8.50	37.0	1,791 <sup>(6)</sup>
	2017	2016 GCOC <sup>(3)</sup>	8.50	37.0	1,614 <sup>(7)</sup>

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The AUC released its 2016 GCOC decision for the periods 2016 to 2017 on October 7, 2016.

(4) The AUC released its 2018 GCOC decision for the periods 2018 to 2020 on August 2, 2018.

(5) The mid-year rate base for 2019 is equal to the year over year growth in rate base reflected in the 2020 PBR Annual Rate Filings applied to the 2018 actual mid-year rate base and includes mid-year work in progress.

(6) The mid-year rate base for 2018 is based on the Rule 005 Actuals Package and includes mid-year work in progress.

(7) The mid-year rate base for 2017 is based on the Rule 005 Actuals Package and includes mid-year work in progress.

(8) The mid-year rate base for 2019 is based on the electricity transmission 2018-2019 General Tariff Application Compliance Filing and includes estimated mid-year work in progress.

(9) The mid-year rate base for 2019 is based on the natural gas transmission 2019-2020 General Rate Application Compliance Filing and includes estimated mid-year work in progress.

## GCOC (POST-2020)

In December 2018, the AUC initiated the 2021 GCOC proceeding. The main focus of the proceeding will be to determine the rate of return for the years 2021 and 2022, as well as consideration of returning to a formula-based approach. Initial evidence was filed in January 2020 focusing on comparability to other investments, capital attractiveness and financial integrity. The AUC expects to issue a decision in 2020.

## PERFORMANCE BASED REGULATION

In December 2016, the AUC released its decision on the second generation PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements.

In February 2018, the AUC released a regulatory decision that provided determinations for the going-in rates and incremental capital funding for the second generation of PBR. In November 2018, the AUC issued a Phase I Review and Variance decision to reassess anomaly adjustments for all Alberta distribution utilities for the purposes of establishing 2018 going-in rates. On February 14, 2019, the AUC commenced a proceeding to undertake that review. On January 30, 2020, the AUC issued a decision, which provided updated clarification on what would qualify for anomaly adjustments. Parties can now re-apply for applicable anomalies, which if approved, would re-establish 2018 going in rates. Applications are to be submitted in early 2020 with a decision from the AUC expected before the end of the year.



<b>PBR Second Generation</b>	
<b>Timeframe</b>	2018 to 2022
<b>Inflation Adjuster (I Factor)</b>	Inflation indices (AWE and CPI) adjusted annually
<b>Productivity Adjuster (X Factor)</b>	0.30%
<b>O&amp;M</b>	Based on the lowest annual actual O&M level during 2013-2016, adjusted for inflation, growth and productivity to 2017 dollars; inflated by I-X thereafter over the PBR term
<b>Treatment of Capital Costs</b>	<ul style="list-style-type: none"> <li>Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital costs for the period 2013-2016. The K Bar is calculated annually and adjusted for the actual WACC</li> <li>Significant capital costs that are extraordinary, not previously incurred and required by a third party recovered through a "Type I" K Factor</li> </ul>
<b>ROE Used for Going-in Rates</b>	<ul style="list-style-type: none"> <li>8.5%</li> <li>+ 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019</li> </ul>
<b>Efficiency Carry-over Mechanism (ECM)</b>	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
<b>Reopener</b>	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
<b>ROE Used for Reopener Calculation</b>	<ul style="list-style-type: none"> <li>2018: 8.5% excluding impact of ECM</li> <li>2019: 8.5% excluding impact of ECM</li> <li>2020: 8.5%</li> <li>2021 and beyond: At approved ROE pending future GCOC proceeding decisions</li> </ul>

#### ACCESS ARRANGEMENT - INTERNATIONAL NATURAL GAS DISTRIBUTION

International natural gas distribution's Access Arrangement period (AA4) was in place from July 2014 to December 2019. The following table contains the ROE and deemed common equity ratios from the current Access Arrangement. The table also contains the mid-year rate base.

	Year	ERA Decision	Rate of Return on Common Equity (%) <sup>(1)</sup>	Common Equity Ratio (%) <sup>(2)</sup>	Mid-Year Rate Base (\$ millions)
<b>International Natural Gas Distribution</b>	<b>2019</b>	<b>2016 AA4<sup>(3)</sup></b>	<b>7.21</b>	<b>40.0</b>	<b>1,178<sup>(4)</sup></b>
	2018	2016 AA4 <sup>(3)</sup>	7.21	40.0	1,211 <sup>(5)</sup>
	2017	2016 AA4 <sup>(3)</sup>	7.21	40.0	1,179 <sup>(6)</sup>

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The ERA released its AA4 Amended Final Decision on September 10, 2015. This was superseded when the ERA released its AA4 Revised Final Decision on October 25, 2016.

(4) 2019 mid-year rate base was impacted by a strengthening Canadian dollar in 2019. The 2019 mid-year rate base was calculated using a foreign exchange rate of Australian \$1 to Canadian \$0.91 compared to Canadian \$0.96 in 2018. The mid-year rate base in Australian dollars was \$1,293 in 2019 and \$1,260 in 2018, which is a \$33 million increase from 2018 to 2019.

(5) 2018 mid-year rate base was impacted by a strengthening Canadian dollar in 2018. The 2018 mid-year rate base was calculated using a foreign exchange rate of Australian \$1 to Canadian \$0.96 compared to Canadian \$0.98 in 2017. The mid-year rate base in Australian dollars was \$1,260 in 2018 and \$1,205 in 2017, which is a \$55 million increase from 2017 to 2018.

(6) 2017 mid-year rate base was impacted by a strengthening Australian dollar in 2017. The 2017 mid-year rate base was calculated using a foreign exchange rate of Australian \$1 to Canadian \$0.98 compared to Canadian \$0.97 in 2016. The mid-year rate base in Australian dollars was \$1,205 in 2017 and \$1,145 in 2016, which is a \$60 million increase from 2016 to 2017.

#### ACCESS ARRANGEMENT 5

International natural gas distribution received the final decision related to the five-year Access Arrangement 5 (AA5) application from the Economic Regulation Authority (ERA) on November 15, 2019. The ERA also published its final rate of return guidelines which outline the parameters for the weighted average cost of capital (WACC) applicable to AA5. The AA5 WACC calculation was completed using a 20-business day period of observation in September 2019 to determine the risk free rate portion of the WACC calculation prior to the final decision. The WACC also determines the regulated

return on equity (ROE) for international natural gas distribution. The AA5 ROE is 5.02 per cent compared to 7.21 per cent in the previous Access Arrangement. The final decision also includes rebasing of revenues for the recovery of operating costs, the approved capital expenditure program, and the forecast of demand and throughput. The common equity ratio for AA5 will be 45 per cent compared to 40 per cent in the previous Access Arrangement.

The tariffs included in the AA5 final decision are applicable for the period January 1, 2020 to December 31, 2024.

## **ALBERTA REGULATORY UPDATES**

### **ELECTRICITY TRANSMISSION AND DISTRIBUTION REGULATORY UPDATES**

#### ***ELECTRICITY DISTRIBUTION DEPRECIATION PROCEEDING***

In the third quarter of 2019, the AUC issued a decision on depreciation parameters that extends the overall depreciable life of the electricity distribution assets and incorporates historical retirements related to severe weather events. The AUC determined the depreciation parameters as filed are reasonable, resulting in an electricity distribution depreciation rate change and lowered depreciation expense in the third and fourth quarters of 2019.

#### ***ELECTRICITY TRANSMISSION AND ELECTRICITY DISTRIBUTION RECOVERY OF 2016 REGIONAL MUNICIPALITY OF WOOD BUFFALO WILDFIRE COSTS***

In October 2019, the AUC issued its decisions associated with electricity transmission and electricity distribution's application for the recovery of costs related to the 2016 Regional Municipality of Wood Buffalo wildfire.

Electricity transmission's applied-for cost recoveries were all substantially approved as part of the electricity transmission 2018-2019 GTA.

Approximately 90 per cent of the applied-for cost recoveries were approved in electricity distribution's application. The capital cost to replace the destroyed assets was approved as filed as were the majority of the operating and maintenance costs and recovery for lost revenues. However, the value of electricity distribution's destroyed assets was deemed to be an extraordinary retirement and was not approved for recovery in customer rates, resulting in a reduction to 2019 adjusted earnings of \$2 million.

#### ***ELECTRICITY TRANSMISSION 2020-2022 GENERAL TARIFF APPLICATION (GTA)***

In October 2019, electricity transmission filed a GTA for its operations for 2020, 2021, and 2022. The application requests, among other things, additional revenues to recover higher depreciation costs. The application also requests, at electricity transmission's discretion, the ability to advance an application to establish 2023 and 2024 revenue requirements by escalating the 2022 approved revenue requirement. A decision from the AUC is expected by the fourth quarter of 2020.

#### ***ELECTRICITY TRANSMISSION HANNA REGION TRANSMISSION DEVELOPMENT DEFERRAL APPLICATION***

In February 2017, electricity transmission filed an application seeking approval of approximately \$688 million of capital additions related to the Hanna Regional Transmission Development program incurred between 2012 and 2015. A decision from the AUC was received in June 2019 approving the vast majority of capital additions into rate base as prudently incurred.

#### ***ELECTRICITY TRANSMISSION 2018-2019 GTA***

In June 2017, electricity transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of requested capital expenditures and operating costs as filed. The impact of this decision was an increase to second quarter 2019 adjusted earnings of \$17 million.

#### ***ELECTRICITY TRANSMISSION 2015-2017 DIRECT ASSIGNED PROJECTS DEFERRAL APPLICATION***

In March 2019, electricity transmission filed an application seeking the approval of approximately \$2.2 billion of capital additions from transmission projects with in-service dates between 2015-2017. The application includes \$1.8 billion in capital additions from the Eastern Alberta Transmission Line.

## **NATURAL GAS TRANSMISSION REGULATORY UPDATES**

### ***NATURAL GAS TRANSMISSION 2019-2020 GENERAL RATE APPLICATION (GRA)***

In July 2018, natural gas transmission filed a GRA for 2019 and 2020. The decision was received in June 2019 approving the majority of requested capital expenditures and operating costs requested as filed. The adjustments directed by the AUC in the decision had a \$3 million positive impact in the second quarter 2019 adjusted earnings.

## **PBR REGULATORY UPDATES**

### ***1<sup>ST</sup> GENERATION PERFORMANCE BASED REGULATION (PBR) RE-OPENER***

In June 2018, the AUC initiated a process for electricity distribution and natural gas distribution as the re-opener clause was triggered by both utilities in 2017, the final year of the 1<sup>st</sup> Generation PBR plan. The PBR re-opener thresholds are triggered if a utility's earnings are +/- 500 bps from the approved ROE in one year or +/- 300 bps from approved ROE in two consecutive years.

In February 2019, the AUC issued its decision that the re-opening of the plan was not warranted, agreeing with Canadian Utilities' submission that the achievements of the utilities were not due to a flaw in the PBR plan, but rather were the result of management decisions responding to the incentives the plan created. This process is closed.

## **COMMON MATTERS REGULATORY UPDATES**

### **INFORMATION TECHNOLOGY (IT) COMMON MATTERS**

In August 2014, Canadian Utilities 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 which was recorded in earnings attributable to equity owners of the company. In 2014, the Company did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In 2015, the AUC commenced an Information Technology Common Matters (IT Common Matters) proceeding to review the recovery of information technology costs by the Alberta Utilities from January 1, 2015 going forward. In June 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. For natural gas distribution and electricity distribution, the AUC's direction impacts the PBR 2018 going-in rates and treatment of capital costs. For the natural gas transmission and electricity transmission utilities, the AUC's direction impacts the revenue requirement dating back to 2015. The Alberta Utilities presented a considerable amount of evidence, including independent expert benchmarking and price review studies, to show that the Wipro MSA rates were at fair market value (FMV). As such, there was no cross subsidization between the sale price of Canadian Utilities' IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts, the AUC determined that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

As a result of the AUC's IT Common Matters decision, a \$23 million reduction to the previously recorded 2014 after-tax gain on sale of \$138 million was recorded in 2019. Going forward, the IT Common Matters decision is expected to further reduce the previously recorded gain. Consistent with the treatment in 2014, the \$23 million reduction recognized in 2019, along with ongoing impacts associated with this decision, are not included in adjusted earnings.

In July 2019, the Alberta Utilities filed a leave to appeal application with the Alberta Court of Appeal in relation to the AUC Decision on the IT Common Matters proceeding. In October 2019, the Alberta Court of Appeal denied the Alberta Utilities leave to appeal application.

# SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

## SUSTAINABILITY REPORTING

Our 2019 Sustainability Report, which will be published in June 2020, will focus on the material topics listed below.

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous relations.

The Sustainability Report is based upon the internationally recognized Global Reporting Initiative (GRI) Standards. Our reporting is also guided by the Sustainability Accounting Standards Board (SASB) and the Financial Stability Board's Task Force on Climate-related Financial Disclosures' (TCFD) recommendations.

The 2018 Sustainability Report, Sustainability Framework Reference Document, and other disclosures are available on our website, at [www.canadianutilities.com](http://www.canadianutilities.com).

## CLIMATE CHANGE AND ENERGY TRANSITION

To contribute to a lower carbon future, we continue to pursue initiatives looking at integrating lower intensity fuels, such as natural gas, hydrogen, renewables, and other clean energy solutions.

We actively and constructively work with federal and provincial governments with the goal of finding the best long-term solutions. We participate in a wide number of discussions, and the following are examples of where we are focusing our efforts.

### Carbon Pricing / Output-Based Pricing Systems

The Government of Canada imposed a carbon levy of \$20 per tonne as of January 1, 2019, increasing to \$30 per tonne in April 2020. By 2022, it is expected to reach \$50 per tonne.

In addition, the Government of Canada released the Output-Based Pricing System Regulations in June 2019. In Alberta, the Technology Innovation and Emissions Reduction (TIER) regulations meet the federal government's stringency requirements for carbon emitting pricing systems for Large Industrial Emitters and came into force on January 1, 2020.

In the third quarter of 2019, Canadian Utilities announced the sale of its 2,276-MW Canadian fossil fuel-based electricity generation business in a series of transactions. These sale transactions remove coal-fired electricity generation assets from Canadian Utilities' asset portfolio and significantly reduce overall greenhouse gas emissions as of October 1, 2019.

Under the National Greenhouse and Energy Reporting scheme in Australia, the safeguard mechanism applies to facilities with direct covered emissions of more than 100,000 tonnes of carbon dioxide equivalent per year. These facilities are required to keep their net emissions at or below emissions baselines set by the Clean Energy Regulator or surrender Australia Carbon Credit Units to offset their emissions and stay below their baseline.

## Fuel Switching / Clean Fuel Standards

In June 2019, the Government of Canada released a paper on the Clean Fuel Standards Proposed Regulatory Approach. A key design element being proposed is that credits can be generated when end-users displace liquid transportation fuel with natural gas, propane or a non-carbon energy carrier such as electricity or hydrogen. The regulations will come into force for the liquid class in 2022 and the gaseous and solid classes in 2023.

In 2018, Canadian Utilities installed three electric vehicle (EV) charging stations between Calgary and Edmonton, Alberta providing end-users an opportunity to replace liquid fuel with a low-carbon emitting energy. In 2019, Canadian Utilities continued to expand its number of EV direct current, fast charging stations with 15 stations installed and 5 additional stations planned to be in service by the end of the first quarter of 2020.

In Australia, with support from the Australian Renewable Energy Agency (ARENA) we are investing \$3.7 million in a leading research and development facility at our Jandakot Operations Centre, called the Clean Energy Innovation Hub. The Clean Energy Innovation Hub is a test bed for hybrid energy solutions integrating natural gas, solar PV, battery storage and hydrogen production.

We also continue to explore and implement opportunities for fuel switching to lower-emitting options such as reducing or replacing diesel consumption with more energy efficient solutions for customers in remote communities.



*EV charging station, Lethbridge, Alberta*

## Methane Reductions

We continue to monitor developments, such as provincial equivalency to the Government of Canada announcement to reduce methane emissions from the oil and gas sector by 40 to 45 per cent from 2012 levels by 2025.

The federal and provincial methane regulations affect a portion of the Company's fugitive and venting emissions from Canadian natural gas pipeline-related operations. The Company's exposure is limited because requirements to upgrade equipment in order to further reduce methane emissions are expected to be included in rate base on a go-forward basis. The Company has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions in the natural gas distribution and transmission businesses, and will comply with both sets of rules until equivalency is reached.

## Climate Change Resiliency

We carefully manage climate-related risks, including preparing for, and responding to, extreme weather events through activities such as proactive route selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes and continues to evaluate ways to create greater system reliability and resiliency. When planning for capital investment or acquiring assets we consider site specific climate and weather factors, such as flood plain mapping and extreme weather history.

In electricity transmission and distribution operations, grid resiliency initiatives focus on prevention, protection, and reaction. Prevention includes minimizing operational risks and ensuring system adequacy through system planning and coordination. Protection is focused on improving grid resiliency through activities such as retrofitting and vegetation management to reduce incidents that result in outages. Wildfire Management Plans include requirements to conduct annual patrols of all power lines in forest protection areas. Finally, we look to restore services in the shortest possible timeframe through grid modernization, adequate contingency planning and dispatch.

In natural gas transmission and distribution activities, the majority of the Company's pipeline network is underground, making it less susceptible to extreme weather events. We work with regulators to increase resiliency where appropriate through asset improvement projects. We have also mapped and continue to regularly inspect pipeline water crossings.

We have streamlined our Crisis Response and Emergency Preparedness systems, and we continuously improve our ability to rapidly mobilize and effectively respond to crises globally. We incorporate learnings from responding to extreme weather events which enables us to continue to strengthen our emergency response capabilities.

### Climate Change Challenges and Opportunities

While climate-related challenges and opportunities are integrated into our strategy and risk management processes, Canadian Utilities understands that specifically disclosing climate-related information may be useful for the investment community. In addition to the material risks described in the Business Risks and Risk Management section of this MD&A, the table below provides further information on how we address specific climate-related challenges and opportunities. We plan to continue to progress these disclosures in the future.

Category/ Driver	Challenges	Opportunities	Mitigation Options/Measures
<b>Policy/ Regulatory</b>	Operations in several jurisdictions subject to emissions limiting regulations  Aggressive shifts in policy which do not allow for transition in an effective, affordable manner	Continued fuel switching to lower-emitting options  Coal-to-gas conversions present opportunity for increased demand for natural gas transmission infrastructure investment in the near to medium term	Active participation in policy development, industry groups, regulatory discussions, etc.  Business diversification  Sale of 2,276-MW of Canadian fossil fuel-based electricity generation significantly reduces total GHG emissions of the Company
<b>Market</b>	Changes in carbon policy, costs of operations, and commodity prices  Changing customer behaviour	Increase in demand for lower-emitting technologies	Participation in carbon markets  Business diversification
<b>Technology</b>	Replacement of current products/services with lower-emitting options  Prosumer movement may affect energy load profiles	A transition to lower-emitting energy systems provides opportunity to utilize expertise in: generation, integration and delivery of new energy sources including hydrogen, renewable natural gas, EV networks; and transmission and distribution infrastructure to ensure energy network reliability and security	Internal innovation teams to evaluate new technologies
<b>Reputational</b>	Public perception of carbon risk	Increase in demand for trusted long-term partners to deliver lower-emitting solutions	Transparent reporting
<b>Physical</b>	Extreme weather events  Long-term changes in temperature and weather patterns	Climate change mitigation and adaptation	Climate change resiliency efforts  Emergency Response and Preparedness plans and training



# OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 2019 and 2018 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

(\$ millions)	Three Months Ended December 31			Year Ended December 31		
	2019	2018	Change	2019	2018	Change
Operating costs	440	507	(67)	1,918	1,951	(33)
Service concession arrangement costs	9	44	(35)	127	664	(537)
Depreciation and amortization	154	147	7	582	638	(56)
Proceeds from termination of Power Purchase Arrangement	-	-	-	-	62	(62)
Gain on sale of operations	21	-	21	174	-	174
Gain on sale of Barking Power assets	-	125	(125)	-	125	(125)
Earnings from investment in joint ventures	6	5	1	21	24	(3)
Net finance costs	112	125	(13)	462	469	(7)
Income taxes	88	84	4	53	225	(172)

## OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation and amortization, decreased by \$67 million in the fourth quarter of 2019 mainly due to the sale of the Canadian fossil-fuel based electricity generation business in the third quarter of 2019.

Operating costs decreased by \$33 million in 2019 when compared to 2018, mainly due to the sale of the Canadian fossil-fuel based electricity generation business in the third quarter of 2019. Lower operating costs were partially offset by higher losses on mark-to-market forward and swap commodity contracts in Independent Power Plants and higher flow-through power costs in ATCOenergy.

## SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs were recorded for third party construction and operation activities for APL's Fort McMurray West-500kV Project. Service concession arrangement costs in the fourth quarter and full year 2019 were \$35 million and \$537 million lower compared to the same periods in 2018, mainly due to the completion of construction activities in March 2019. The project was energized on March 28, 2019 and costs incurred subsequent to this date relate to operating and maintenance activities.

## DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by \$7 million in the fourth quarter of 2019 mainly due to higher depreciation costs in electricity transmission.

Depreciation and amortization decreased by \$56 million in 2019. Lower depreciation is mainly due to a depreciation rate change in the third quarter of 2019 extending the overall depreciable life of the electricity distribution assets, and the ceasing of depreciation of the Canadian fossil fuel-based electricity generation assets that were classified as held for sale in the second quarter of 2019 and subsequently sold in the third quarter of 2019. Lower depreciation expense was partially offset by higher depreciation costs in electricity transmission, ongoing capital investment, and the implementation of IFRS 16 in 2019.

## **PROCEEDS FROM TERMINATION OF POWER PURCHASE ARRANGEMENT**

On September 30, 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a \$62 million payment from the Balancing Pool in the third quarter of 2018.

## **GAIN ON SALE OF OPERATIONS**

In the fourth quarter of 2019, Canadian Utilities completed a series of transactions on the sale of our Canadian fossil fuel-based electricity generation portfolio and ownership interest in Alberta PowerLine. These sales resulted in a gain on sale of operations of \$174 million (before income tax). This gain on sale includes \$10 million of transaction costs recognized in previous quarters.

## **GAIN ON SALE OF BARKING POWER ASSETS**

In the fourth quarter of 2018, Canadian Utilities sold its 100 per cent ownership interest in the Barking Power assets. In accordance with IFRS accounting standards, Canadian Utilities recorded a gain on sale of \$125 million (before income tax).

## **EARNINGS FROM INVESTMENT IN JOINT VENTURES**

Earnings from investment in joint ventures is mainly comprised of our ownership position in several electricity generation plants and the Strathcona Storage Limited Partnership which operates hydrocarbon storage facilities near Fort Saskatchewan, Alberta.

Earnings from investment in joint ventures increased by \$1 million in the fourth quarter of 2019 compared to the same period in 2018 mainly due to higher earnings from the Strathcona Storage Limited Partnership due to two additional hydrocarbon storage caverns that became operational in the second quarter of 2018.

Earnings from investment in joint ventures decreased by \$3 million in 2019 compared to 2018 mainly due to the impact of the new PPA at the Osborne generation plant in Australia, and lower earnings in electricity generation due to the sale of Brighton Beach in the third quarter of 2019, partially offset by higher earnings from the Strathcona Storage Limited Partnership due to two additional hydrocarbon storage caverns that became operational in the second quarter of 2018.

## **NET FINANCE COSTS**

Net finance costs decreased by \$13 million in the fourth quarter of 2019, and \$7 million in the full year of 2019, when compared to the same periods in 2018, mainly due to lower interest expense under service concession arrangement accounting as a result of the completion of construction of APL in the first quarter of 2019. Decreased net finance costs were also due to lower interest expenses on non-recourse long-term debt from the sale of the Canadian fossil-fuel based electricity generation business in the third quarter of 2019, and lower interest expense on long-term CU Inc. debt refinanced in the third quarter of 2019.

## **INCOME TAXES**

Income taxes increased by \$4 million in the fourth quarter of 2019 compared to the same period in 2018, mainly due to the sale of Alberta PowerLine, partially offset by a decrease in earnings.

Income taxes decreased by \$172 million in the full year of 2019 compared to 2018, mainly due to lower corporate income tax rates enacted by the Government of Alberta in June 2019, partially offset by higher earnings before income taxes in 2019. The Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent over four years, commencing with a one per cent decrease on July 1, 2019 followed by a one per cent reduction on January 1st of each of the next three years.



# LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Regulated Utility and long-term contracted operations. Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations and the debt and preferred share capital markets.

We consider it prudent to maintain enough liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

## CREDIT RATINGS

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

The following table shows the current credit ratings assigned to Canadian Utilities Limited, CU Inc., and ATCO Gas Australia Pty Ltd.

	DBRS	S&P
<b>Canadian Utilities Limited</b>		
Issuer	A	A-
Senior unsecured debt	A	BBB+
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
<b>CU Inc.</b>		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2
<b>ATCO Gas Australia Pty Ltd. <sup>(1)</sup></b>		
Issuer and senior unsecured debt	N/A	BBB+

(1) ATCO Gas Australia Pty Ltd. is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

On July 17, 2019, DBRS Limited affirmed its 'A (high)' long-term corporate credit rating and stable outlook on Canadian Utilities' subsidiary CU Inc. On August 9, 2019, DBRS Limited affirmed its 'A' long-term corporate credit rating and stable outlook on Canadian Utilities.

On October 3, 2019, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating and stable outlook on Canadian Utilities and its subsidiary CU Inc.

On November 11, 2019, S&P Global Ratings (S&P) affirmed its 'BBB+' long-term issuer credit rating and stable outlook on Canadian Utilities subsidiary, ATCO Gas Australia Pty Ltd.

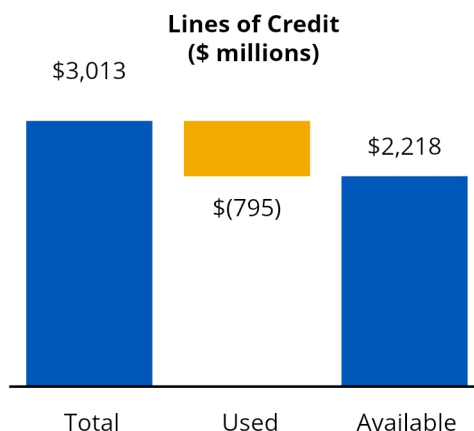
## LINES OF CREDIT

At December 31, 2019, Canadian Utilities and its subsidiaries had the following lines of credit.

<i>(\$ millions)</i>	<b>Total</b>	<b>Used</b>	<b>Available</b>
Long-term committed	<b>2,460</b>	622	1,838
Uncommitted	<b>553</b>	173	380
<b>Total</b>	<b>3,013</b>	795	2,218

Of the \$3,013 million in total credit lines, \$553 million was in the form of uncommitted credit facilities with no set maturity date. The other \$2,460 million in credit lines was committed, with maturities between 2021 and 2023, and may be extended at the option of the lenders.

Of the \$795 million credit line usage, \$620 million was related to ATCO Gas Australia Pty Ltd. with the majority of the remaining usage pertaining to the issuance of letters of credit. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia Pty Ltd.'s term debt financing needs.



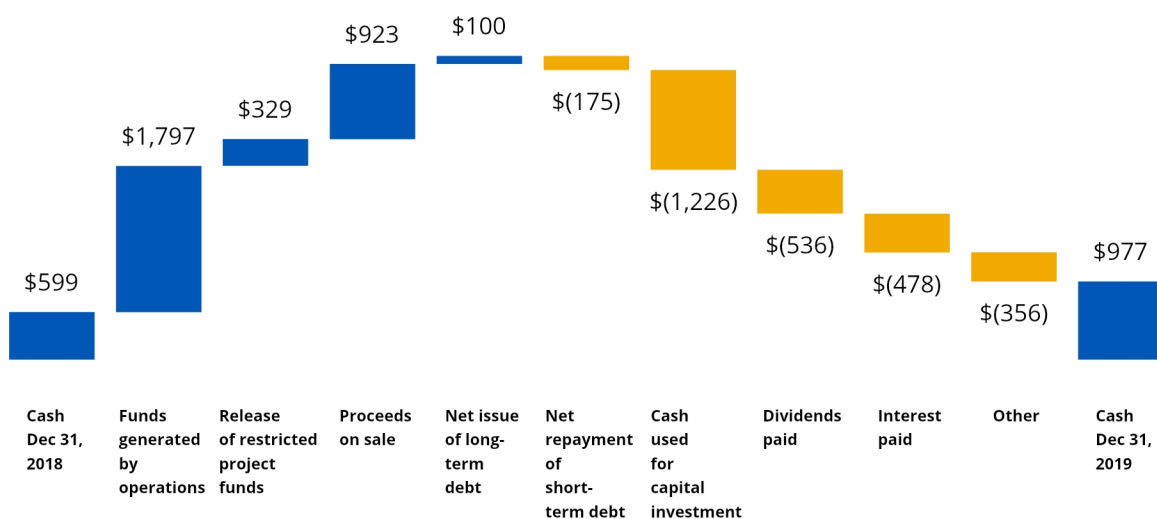
## CONSOLIDATED CASH FLOW

At December 31, 2019, the Company's cash position was \$977 million, an increase of \$378 million compared to December 31, 2018. Major movements are outlined in the following table.

(\$ millions)	Year Ended December 31		
	2019	2018	Change
Funds generated by operations <sup>(1)</sup>	<b>1,797</b>	1,782	15
Release of restricted project funds	<b>329</b>	726	(397)
Proceeds on sales of assets and operations	<b>923</b>	219	704
Net Issue of long-term debt	<b>100</b>	376	(276)
Net issue of short-term debt	<b>(175)</b>	175	(350)
Cash used for capital investment	<b>(1,226)</b>	(1,951)	725
Dividends paid on equity preferred shares	<b>(67)</b>	(67)	-
Dividends paid to non-controlling interests	<b>(7)</b>	(7)	-
Dividends paid to Class A and Class B share owners	<b>(462)</b>	(365)	(97)
Interest paid	<b>(478)</b>	(477)	(1)
Other	<b>(356)</b>	(230)	(126)
Increase in cash position	<b>378</b>	181	197

(1) Additional information regarding this measure is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

### Changes in Consolidated Cash Balances in 2019 (\$ Millions)



## Funds Generated by Operations

Funds generated by operations were \$1,797 million in 2019, \$15 million higher compared to 2018. The increase was mainly due to higher earnings in the Alberta Utilities, partially offset by lower funds generated as a result of the sale of the Canadian fossil-fuel based electricity business in the third quarter of 2019.

## Cash Used for Capital Investment

Cash used for capital investment was \$374 million in the fourth quarter of 2019, \$6 million lower than the same period in 2018. Lower capital spending was mainly due to lower capital investment in electricity transmission and the completion of construction activities in Alberta PowerLine, partially offset by higher capital investment in natural gas transmission due to the commencement of construction in late 2019 on the Pembina-Keephills Transmission Pipeline.

Cash used for capital investment was \$1,226 million, \$725 million lower than in 2018. Lower capital spending was mainly due to the completion of construction activities in Alberta PowerLine in the first quarter of 2019, and the acquisition of Electricidad del Golfo in February of 2018. Lower capital investment in 2019 was partially offset by higher capital investment in natural gas transmission due to the commencement of construction on the Pembina-Keephills Transmission Pipeline in late 2019.

Capital investment in the fourth quarter and full year of 2019 and 2018 is shown in the table below.

(\$ millions)	Three Months Ended December 31			Year Ended December 31		
	2019	2018	Change	2019	2018	Change
<b>Electricity</b>						
Electricity Distribution	73	63	10	224	227	(3)
Electricity Transmission	26	81	(55)	165	240	(75)
Electricity Generation	12	15	(3)	59	156	(97)
Alberta PowerLine	-	44	(44)	95	664	(569)
<b>Total Electricity</b>	<b>111</b>	203	(92)	<b>543</b>	1,287	(744)
<b>Pipelines &amp; Liquids</b>						
Natural Gas Distribution	92	80	12	284	290	(6)
Natural Gas Transmission	130	65	65	293	239	54
International Natural Gas Distribution	19	24	(5)	69	93	(24)
International Natural Gas Transmission and Storage & Industrial Water	19	5	14	31	26	5
<b>Total Pipelines &amp; Liquids</b>	<b>260</b>	174	86	<b>677</b>	648	29
<b>Corporate &amp; Other</b>	<b>3</b>	3	-	<b>6</b>	16	(10)
<b>Canadian Utilities Total <sup>(1) (2)</sup></b>	<b>374</b>	380	(6)	<b>1,226</b>	1,951	(725)

(1) Includes capital expenditures in joint ventures of nil and \$2 million (2018 - \$4 million and \$19 million) for the fourth quarter and full year of 2019.

(2) Includes additions to property, plant and equipment, intangibles and \$2 million and \$16 million (2018 - \$4 million and \$20 million) of interest capitalized during construction for the fourth quarter and full year of 2019.

## **Base Shelf Prospectuses**

### ***CU Inc. Debentures***

On June 11, 2018, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of \$1.5 billion of debentures over the 25-month life of the prospectus. As of February 26, 2020, aggregate issuances of debentures were \$965 million.

### ***Canadian Utilities Debt Securities and Preferred Shares***

On June 11, 2018, Canadian Utilities filed a base shelf prospectus that permits it to issue up to an aggregate of \$2 billion of debt securities and preferred shares over the 25-month life of the prospectus. No debt securities or preferred shares have been issued to date under this base shelf prospectus.

## **Dividends and Common Shares**

We have increased our common share dividend each year since 1972, a 48-year track record. Dividends paid to Class A and Class B share owners totaled \$115 million in the fourth quarter and \$462 million in the full year of 2019.

On January 9, 2020, the Board of Directors declared a first quarter dividend of 43.54 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on our financial condition and other factors.



**48 year  
track record of  
increasing  
common  
share dividends**

### **Canadian Utilities Dividend Reinvestment Plan (DRIP)**

Effective January 10, 2019, Canadian Utilities' DRIP was suspended and no Class A non-voting shares have been issued under its DRIP.

# SHARE CAPITAL

Canadian Utilities' equity securities consist of Class A shares and Class B shares.

At February 25, 2020, we had outstanding 199,734,581 Class A shares, 73,516,244 Class B shares, and options to purchase 804,550 Class A shares.

## **CLASS A NON-VOTING SHARES AND CLASS B COMMON SHARES**

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

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

Of the 12,800,000 Class A shares authorized for grant of options under our stock option plan, 5,030,200 Class A shares were available for issuance at December 31, 2019. Options may be granted to officers and key employees of the Company and its subsidiaries at an exercise price 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 grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

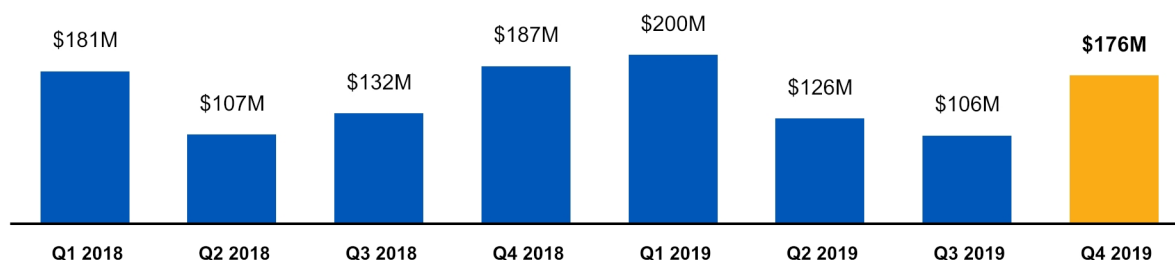
# QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended March 31, 2018 through December 31, 2019.

<i>(\$ millions, except for per share data)</i>	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Revenues	1,189	902	885	<b>929</b>
Earnings attributable to equity owners of the Company	217	299	284	<b>151</b>
Earnings attributable to Class A and B shares	200	283	267	<b>134</b>
Earnings per Class A and Class B share (\$)	0.73	1.03	0.99	<b>0.49</b>
Diluted earnings per Class A and Class B share (\$)	0.73	1.03	0.99	<b>0.49</b>
Adjusted earnings per Class A and Class B share (\$)	0.73	0.46	0.39	<b>0.65</b>
Adjusted earnings				
Electricity	116	106	112	<b>90</b>
Pipelines & Liquids	98	42	19	<b>102</b>
Corporate & Other and Intersegment Eliminations	(14)	(22)	(25)	<b>(16)</b>
<b>Total adjusted earnings</b>	<b>200</b>	<b>126</b>	<b>106</b>	<b>176</b>
<i>(\$ millions, except for per share data)</i>	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Revenues	1,385	967	990	1,035
Earnings (loss) attributable to equity owners of the Company	179	(3)	202	256
Earnings (loss) attributable to Class A and Class B shares	162	(19)	185	239
Earnings (loss) per Class A and Class B share (\$)	0.60	(0.07)	0.68	0.87
Diluted earnings (loss) per Class A and Class B share (\$)	0.60	(0.07)	0.68	0.87
Adjusted earnings per Class A and Class B share (\$)	0.67	0.39	0.49	0.69
Adjusted earnings				
Electricity	97	100	134	103
Pipelines & Liquids	101	27	17	102
Corporate & Other and Intersegment Eliminations	(17)	(20)	(19)	(18)
<b>Total adjusted earnings</b>	<b>181</b>	<b>107</b>	<b>132</b>	<b>187</b>

## ADJUSTED EARNINGS

Our financial results for the previous eight quarters reflect continued growth and regulatory decisions in Regulated Utility operations as well as fluctuating commodity prices in electricity generation and sales, and natural gas storage operations. Interim results will vary due to the seasonal nature of demand for electricity and natural gas, and the timing of utility regulatory decisions.





## ELECTRICITY

Electricity adjusted earnings are impacted by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads.

In 2018, earnings were adversely impacted by performance base regulation rate rebasing under Alberta's regulated model in electricity distribution and lower electricity transmission interim rates approved by the AUC.

In the first quarter of 2018, Electricity earnings were adversely impacted by realized forward sales and minor plant outage costs in the Independent Power Plants, partially offset by earnings from Alberta PowerLine due to construction activity and earnings in Thermal PPAs due to the recognition of availability incentives.

In the second quarter of 2018, earnings increased compared to the second quarter of 2017 mainly due to improved market conditions for Independent Power Plants and higher recognition of availability incentives in the Thermal PPA Plants.

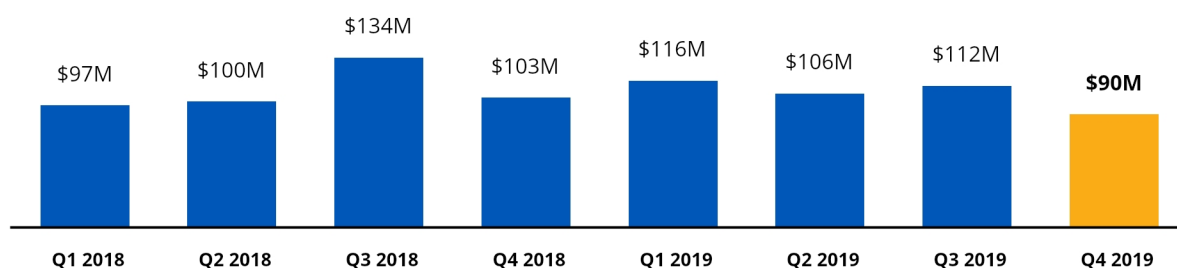
In the third quarter of 2018, earnings increased compared to the third quarter of 2017 mainly due to the completion of performance obligations and additional availability incentive earnings which resulted from the Battle River unit 5 PPA termination, and improved market conditions for Independent Power Plants. These improved earnings were partially offset by lower earnings due to lower scheduled construction activity at Alberta PowerLine.

In the fourth quarter of 2018, higher earnings compared to the fourth quarter of 2017 were mainly due to earnings from the sale of the Barking Power assets and improved conditions in the Alberta power market, as well as higher APL earnings recorded as result of an early energization incentive.

In the first quarter of 2019, higher earnings were mainly due to increased Alberta power market prices, ongoing growth in the regulated rate base and cost efficiencies in electricity distribution.

In the second quarter of 2019, higher earnings compared to the second quarter of 2018 were mainly due to the impact of the electricity transmission 2018-2019 GTA decision, continued growth in the regulated rate base, cost efficiencies, and lower income taxes.

Electricity earnings in the third and fourth quarters of 2019 were lower compared to the same periods in 2018 mainly due to the forgone earnings from the sale of the Canadian fossil fuel-based electricity generation business in the third quarter of 2019 and lower earnings contributions from Alberta PowerLine as a result of the completion of construction activities in the first quarter of 2019. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 general tariff application decision which was received in the second quarter of 2019, overall cost efficiencies and lower income taxes.



## PIPELINES & LIQUIDS

Pipelines & Liquids' adjusted earnings are impacted by the timing of certain major regulatory decisions, seasonality, and demand for hydrocarbon and natural gas storage and water services.

In 2018, earnings were adversely impacted by performance base regulation rate rebasing under Alberta's regulated model in natural gas distribution.

In the first quarter of 2018, earnings were positively impacted by higher seasonal demand and growth in rate base across the pipelines & liquids' regulated businesses.

In the second and third quarters of 2018, lower earnings compared to the same periods in 2017 were mainly due to lower seasonal demand and the impact of rate rebasing under Alberta's regulated model in natural gas distribution, partially offset by growth in rate base across our Regulated Pipelines & Liquids businesses.

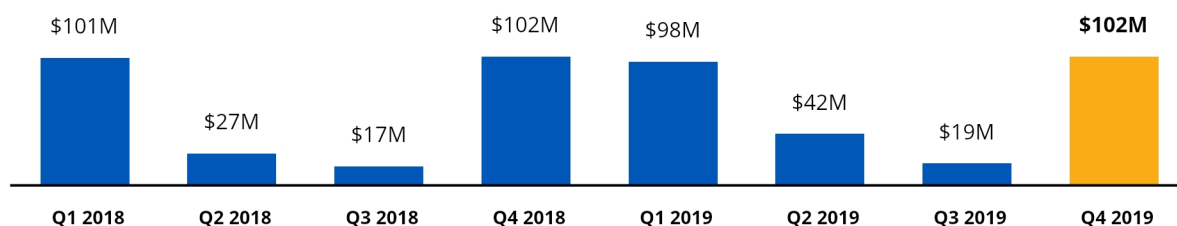
In the fourth quarter of 2018, higher earnings compared to the fourth quarter of 2017 were mainly due to growth in rate base, the timing of regulatory decisions and higher seasonal demand.

In the first quarter of 2019, lower earnings compared to the first quarter of 2018 were mainly due to inflation rate adjustments applied to the rate of return calculations in international natural gas distribution, partially offset by ongoing growth in the regulated rate base and cost efficiencies in natural gas distribution.

In the second quarter of 2019, higher earnings compared to the second quarter of 2018 were mainly due to ongoing growth in the regulated rate base and the impact of the natural gas transmission 2019-2020 general rate application GRA decision, earnings growth in the hydrocarbon storage business, cost efficiencies, and lower income taxes.

In the third quarter of 2019, higher earnings compared to the third quarter of 2018 were mainly due to ongoing growth in the regulated rate base, cost efficiencies, and lower income taxes.

In the fourth quarter of 2019, adjusted earnings were comparable to the same period in 2018.



## EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Earnings attributable to equity owners of the Company includes timing adjustments related to rate-regulated activities and unrealized gains or losses on mark-to-market forward and swap commodity contracts. They also include one-time gains and losses, significant impairments, restructuring charges and other items that are not in the normal course of business or a result of day-to-day operations recorded at various times over the past eight quarters. These items are excluded from adjusted earnings and are highlighted below:

- In the second quarter of 2018, restructuring and other costs not in the normal course of business of \$60 million were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.
- In the third quarter of 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a payment from the Balancing Pool and also recorded additional coal-related costs and Asset Retirement Obligations associated with the Battle River generating facility. This one-time receipt and costs in the net amount of \$36 million were excluded from adjusted earnings.
- In the fourth quarter of 2018, Canadian Utilities sold its 100 per cent ownership interest in Barking Power assets. A gain in the amount of \$87 million was excluded from adjusted earnings.
- In the second, third and fourth quarters of 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine resulting in a gain on sale of operations of \$125 million. As these transactions are one-time in nature, they are excluded from adjusted earnings.

# BUSINESS RISKS AND RISK MANAGEMENT

The Board of Directors (Board) is responsible for understanding the principal risks of the businesses in which the Company is engaged. The Board also must achieve a prudent balance between risks incurred and the potential return to share owners. It must confirm controls are in place that effectively monitor and manage those risks for the Company's long-term viability.

The Board has an Audit & Risk Committee, which reviews significant risks associated with future performance and growth. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

We have an established enterprise risk management process that allows us to identify and evaluate our risks by both severity of impact and probability of occurrence. Materiality thresholds are reviewed annually by the Audit & Risk Committee. Non-financial risks that may have an impact on the safety of our employees, customers or the general public and reputation risks are also evaluated. The following table outlines our current significant risks and associated mitigations.

<b>Business Risk: Capital Investment</b>	
<b>Businesses Impacted:</b>	<b>Associated Strategies:</b>
<ul style="list-style-type: none"> <li>• All businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Growth</li> <li>• Financial Strength</li> </ul>
<b>Description and Context</b>	<b>Risk Management Approach</b>
<p>The Company is subject to the normal risks associated with major capital projects, including cancellations, delays and cost increases.</p>	<p>The Company attempts to reduce the risks of project delays and cost increases by careful planning, diligent procurement practices and entering into fixed price contracts when possible.</p> <p>International natural gas distribution's planned capital investment is approved by the regulator. Planned capital investments for the Alberta Utilities are based on the following significant assumptions: projects identified by the AESO will proceed as currently scheduled; the remaining planned capital investments are required to maintain safe and reliable service and meet planned growth in the Alberta Utilities' service areas; regulatory approval for capital projects can be obtained in a timely manner; and access to capital market financings can be maintained. The Company believes these assumptions are reasonable.</p>

**Business Risk:** Climate Change

**Businesses Impacted:**

- All businesses

**Associated Strategies:**

- Operational Excellence
- Innovation

**Description and Context**

**Policy risks**

Canadian Utilities has operations in several jurisdictions subject to emission regulations, including carbon pricing, output-based performance standards, and other emission management policies. For example, in Alberta the output-based Technology Innovation and Emissions Reduction (TIER) Regulations replaced the federal output-based pricing system as of January 1, 2020.

**Risk Management Approach**

**Policy risks**

The sale of the Canadian fossil fuel-based electricity generation portfolio significantly reduced overall GHG emissions and removed coal-fired electricity generation assets from our asset portfolio as of October 1, 2019.

The Company's exposure is limited for the Regulated Utilities because GHG emission charges are generally recovered in rates. In addition, future requirements, such as upgrading equipment to further reduce methane emissions, are expected to be included in rate base on a go-forward basis.

**Physical Risks**

Physical risks associated with climate change may include an increase in extreme weather events such as heavy rainfall, floods, wildfires, extreme winds and ice storms, or changing weather patterns that cause ongoing impacts to seasonal temperatures. Electricity transmission, distribution and pipeline assets above ground or on water crossings are exposed to extreme weather events.

**Physical Risks**

The Company continues to carefully manage physical risks, including preparing for, and responding to, extreme weather events through activities such as proactive route selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes, continues to evaluate ways to create greater system reliability and resiliency and, where appropriate, submits regulatory applications for capital expenditures aimed at creating greater system reliability and resiliency within the code.

Prevention activities include Wildfire Management Plans and vegetation management at electricity transmission and distribution operations. The majority of the Company's natural gas pipeline network is in the ground, making it less susceptible to extreme weather events. The Company maintains in-depth emergency response measures for extreme weather events.

When planning for capital investment or acquiring assets we consider site specific climate and weather factors, such as flood plain mapping and extreme weather history.

**Business Risk:** Credit Risk**Businesses Impacted:**

- All businesses

**Associated Strategies:**

- Financial Strength

**Description and Context**

For cash and cash equivalents and accounts receivable and contract assets, credit risk represents the carrying amount on the consolidated balance sheet. Derivative, finance lease receivable and receivable under service concession arrangement credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments.

**Risk Management Approach**

Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in federal government issued short-term instruments.

The Company minimizes other credit risks by dealing with credit-worthy counterparties, following established credit-approval policies, and requiring credit security, such as letters of credit.

Geographically, a significant portion of loans and receivables are from the Company's operations in Alberta, followed by operations in Australia and Mexico. The largest credit risk concentration is from the Alberta Utilities, which are able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from the retailers beyond the retailer security mandated by provincial regulations.

**Business Risk:** Cybersecurity**Businesses Impacted:**

- All businesses

**Associated Strategies:**

- Operational Excellence

**Description and Context**

The Company's reliance on technology, which supports its information and industrial control systems, is subject to potential cyber-attacks including unauthorized access of confidential information and outage of critical infrastructure.

**Risk Management Approach**

The Company has an enterprise wide cybersecurity program covering all technology assets. The cybersecurity program includes employee awareness, layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized Security Operations Centre. The Company's cybersecurity management is consolidated under a common, centralized organization structure to increase effectiveness and compliance across the entire enterprise.

**Business Risk:** Energy Commodity Price**Businesses Impacted:**

- Retail Energy
- Non-regulated Pipelines & Liquids

**Associated Strategies:**

- Financial Strength

**Description and Context**

Retail Energy's earnings are affected by short-term price volatility.

Storage & Industrial Water's natural gas storage facility in Carbon, Alberta, is also exposed to storage price differentials.

**Risk Management Approach**

In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in commodity prices. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Under IFRS accounting, entering into hedging instruments may result in mark-to-market adjustments that are recorded as unrealized gains or losses on the income statement. Realized gains or losses are recognized in adjusted earnings and IFRS earnings when the commodity contracts are settled.

In addition, Retail Energy monitors forward curves in order to ensure it is not promoting product offerings that are unfavourable to the Company.

Effective September 30, 2019, the Company completed the sale of its entire Canadian fossil fuel-based electricity generation portfolio. Following the close of the transaction, Canadian Utilities owns 244-MW of electricity generation assets in Canada, Mexico and Australia that are 90 per cent contracted with a weighted average contract length of 8 years.

**Business Risk:** Financing**Businesses Impacted:**

- All businesses

**Associated Strategies:**

- Financial Strength

**Description and Context**

The Company's financing risk relates to the price volatility and availability of external financing to fund the capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, these risk factors can affect the availability of capital and also the relevant financing costs.

**Risk Management Approach**

To address this risk, the Company manages its capital structure to maintain strong credit ratings which allow continued ease of access to the capital markets. The Company also considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. This liquidity is generated by cash flows from operations and supported by appropriate levels of cash and available committed credit facilities.

**Business Risk:** Foreign Currency Exchange**Businesses Impacted:**

- All businesses

**Associated Strategies:**

- Financial Strength

**Description and Context**

The Company's earnings from, and carrying values of, its foreign operations are exposed to fluctuations in exchange rates. The Company is also exposed to transactional foreign exchange risk through transactions denominated in a foreign currency.

**Risk Management Approach**

In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options, to manage the risks arising from fluctuations in exchange rates. All such instruments are used only to manage risk and not for trading purposes. This foreign exchange impact is partially offset by foreign denominated financing and by hedging activities. The Company manages this risk through its policy of matching revenues and expenses in the same currency. When matching is not possible, the Company may utilize foreign currency forward contracts to manage the risk.

**Business Risk:** Interest Rate**Businesses Impacted:**

- All businesses

**Associated Strategies:**

- Financial Strength

**Description and Context**

The interest rate risk faced by the Company is largely a result of its long-term debt at variable rates as well as cash and cash equivalents. The Company also has exposure to interest rate movements that occur beyond the term of maturity of the fixed-rate investments.

**Risk Management Approach**

In conducting its business, the Company may use various instruments, including forward contracts, swaps, and options to manage the risks arising from fluctuations in interest rates. All such instruments are used only to manage risk and not for trading purposes. The Company has converted certain variable rate long-term debt to fixed rate debt through interest rate swap agreements. At December 31, 2019, the Company had 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 future cash flows, with respect to debt, from changes in market interest rates was limited. The Company's cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature.



<b>Business Risk: Natural Gas Supply</b>	
<b>Businesses Impacted:</b>	<b>Associated Strategies:</b>
<ul style="list-style-type: none"> <li>• Non-regulated Pipelines &amp; Liquids</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Strength</li> </ul>
<b>Description and Context</b>	<b>Risk Management Approach</b>
<p>An Alberta natural gas transportation provider's curtailment protocol in 2017 contributed to ongoing low natural gas prices in Alberta. While the protocol was changed in the later part of 2019, it still presents operational risk for natural gas storage facilities in the downstream market; all storage in Alberta is under interruptible transport. Further natural gas transportation maintenance is scheduled for multiple years into the future, which may result in transportation constraints.</p>	<p>To reduce the impact to natural gas storage operations, Canadian Utilities structures its natural gas storage portfolio around the natural gas transportation provider's planned maintenance schedules to minimize the impact of natural gas supply curtailments.</p>

<b>Business Risk: Pipeline Integrity</b>	
<b>Businesses Impacted:</b>	<b>Associated Strategies:</b>
<ul style="list-style-type: none"> <li>• Pipelines &amp; Liquids</li> </ul>	<ul style="list-style-type: none"> <li>• Operational Excellence</li> <li>• Community Involvement</li> </ul>
<b>Description and Context</b>	<b>Risk Management Approach</b>
<p>Pipelines &amp; Liquids has significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe.</p>	<p>Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required to address safety, reliability, and future growth. These programs include natural gas distribution and natural gas transmission's Urban Pipeline Replacement and Integrity programs, and natural gas distribution and international natural gas distribution's Mains Replacement programs. The Company also carries property and liability insurance.</p>

<b>Business Risk: Political</b>	
<b>Businesses Impacted:</b>	<b>Associated Strategies:</b>
<ul style="list-style-type: none"> <li>• All businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Growth</li> <li>• Financial Strength</li> <li>• Operational Excellence</li> </ul>
<b>Description and Context</b>	<b>Risk Management Approach</b>
<p>Operations are exposed to a risk of change in the business environment due to political change. Legislative changes may impact the financial performance of operations. This could negatively impact earnings, return on equity and assets, and credit metrics.</p>	<p>Participation in policy consultations with governments and engagement of stakeholder groups ensures ongoing communication and that the impacts and costs of proposed policy changes are identified and understood. Where appropriate, the Company works with its peers and industry associations to develop common positions and strategies. Geographic diversification of assets by region and by country reduces the impact of political and legislative changes.</p>

<b>Business Risk: Regulated Operations</b>	
<b>Businesses Impacted:</b>	<b>Associated Strategies:</b>
<ul style="list-style-type: none"> <li>• Regulated Pipelines</li> <li>• Regulated Electricity</li> </ul>	<ul style="list-style-type: none"> <li>• Growth</li> <li>• Financial Strength</li> <li>• Operational Excellence</li> </ul>
<b>Description and Context</b>	<b>Risk Management Approach</b>
<p>The Regulated Utilities are subject to the normal risks faced by regulated companies. These risks include the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base. These risks also include the regulator's potential disallowance of costs incurred. Electricity distribution and natural gas distribution operate under performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery. In Australia, the ERA assesses appropriate returns, prudent levels of operating costs, capital expenditure and expected throughput on the network through an Access Arrangement proceeding.</p>	<p>The Regulated Utilities file forecasts in the rate-setting process to recover the costs of providing services and earn a fair rate of return. The determination of a fair rate of return on the common equity component of rate base is determined in a generic cost of capital proceeding in Alberta and an Access Arrangement proceeding in Australia. The Regulated Utilities continuously monitor various regulatory decisions and cases to assess how they might impact the Company's regulatory applications for the recovery of prudent costs. The Regulated Utilities are proactive in demonstrating prudence and continuously look for ways to lower operating costs while maintaining service levels.</p>

<b>Business Risk: Technological Transformation and Disruption</b>	
<b>Businesses Impacted:</b>	<b>Associated Strategies:</b>
<ul style="list-style-type: none"> <li>• All businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Growth</li> <li>• Financial Strength</li> <li>• Operational Excellence</li> <li>• Innovation</li> </ul>
<b>Description and Context</b>	<b>Risk Management Approach</b>
<p>The introduction and rapid, widespread adoption of transformative technology could lead to disruption of the Company's existing business models and new competitive market dynamics. Failure to effectively identify and manage disruptive technology and / or changing consumer attitudes and preferences may result in disruptions to the business and an inability to achieve strategic and financial objectives.</p>	<p>The strategic plans of each Business Unit incorporate and address the evolution of their business into areas of transformative technology. Achievement of technological currency and implementation of innovative initiatives have been adopted as key strategies for the Company and annual key performance indicators in these areas are monitored to ensure continuing evolution. The business constantly seeks opportunities to minimize costs by monitoring trends occurring in other jurisdictions that may be ahead of the technological curve.</p>

<b>Business Risk: Liquidity</b>	
<b>Businesses Impacted:</b>	<b>Associated Strategies:</b>
• All businesses	• Financial Strength
<b>Description and Context</b>	<b>Risk Management Approach</b>
Liquidity risk is the risk that the Company will not be able to meet its financial obligations.	Cash flows from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long-term debt, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans under available credit lines are used to provide flexibility in the timing and amounts of long-term financing. The Company does not invest any of its cash balances in asset-backed securities. At December 31, 2019, the Company's cash position was \$977 million and there were available committed and uncommitted lines of credit of approximately \$2.2 billion which can be utilized for general corporate purposes.

Liquidity Risk includes contractual financial obligations which the Company will meet with cash flow from operations, existing cash balances and external financing, if necessary. These contractual obligations for the next five years and thereafter are shown below.

(\$ millions)	2020	2021	2022	2023	2024	2025 and thereafter
<b>Financial Liabilities</b>						
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	–	–
	1,096	800	681	846	443	14,107
<b>Commitments</b>						
Purchase obligations:						
Operating and maintenance agreements	336	316	321	319	281	24
Capital expenditures	128	–	–	–	–	–
Other	9	–	–	–	–	–
	473	316	321	319	281	24
<b>Total</b>	<b>1,569</b>	<b>1,116</b>	<b>1,002</b>	<b>1,165</b>	<b>724</b>	<b>14,131</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.

# NON-GAAP AND ADDITIONAL GAAP MEASURES

Adjusted earnings are defined as earnings attributable to equity owners of the Company after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company, and unrealized gains or losses on mark-to-market forward and swap commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings attributable to equity owners of the Company is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 4 of the 2019 Consolidated Financial Statements.

Adjusted earnings per Class A and Class B share is calculated by dividing adjusted earnings by the weighted average number of shares outstanding for the period.

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

Capital investment is defined as cash used for capital expenditures, business combinations, service concession arrangements, and cash used in the Company's proportional share of capital expenditures in joint ventures. In management's opinion, capital investment reflects the Company's total cash investment in assets. Capital expenditures includes additions to property, plant and equipment and intangibles as well as interest capitalized during construction. A reconciliation of capital investments to capital expenditures is presented in this MD&A.

# RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

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

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada and Australia than IFRS earnings.

<i>(\$ millions)</i>	<b>Three Months Ended December 31</b>				
<b>2019</b>	<b>Electricity</b>	<b>Pipelines &amp; Liquids</b>	<b>Corporate &amp; Other</b>	<b>Intersegment Eliminations</b>	<b>Consolidated</b>
2018					
Revenues	<b>419</b>	<b>483</b>	<b>49</b>	<b>(22)</b>	<b>929</b>
	637	383	50	(35)	1,035
Adjusted earnings (loss)	<b>90</b>	<b>102</b>	<b>(14)</b>	<b>(2)</b>	<b>176</b>
	103	102	(18)	–	187
Loss on sale of operations	<b>(12)</b>	–	–	–	<b>(12)</b>
	–	–	–	–	–
Sale of Barking Power assets	–	–	–	–	–
	87	–	–	–	87
Unrealized gains (losses) on mark-to-market forward and swap commodity contracts	–	<b>5</b>	<b>(1)</b>	–	<b>4</b>
	2	–	–	–	2
Rate-regulated activities	<b>(5)</b>	<b>(8)</b>	–	<b>(3)</b>	<b>(16)</b>
	14	(52)	–	1	(37)
IT Common Matters decision	<b>(3)</b>	<b>(3)</b>	–	–	<b>(6)</b>
	–	–	–	–	–
Dividends on equity preferred shares of Canadian Utilities Limited	<b>1</b>	–	<b>16</b>	–	<b>17</b>
	1	1	15	–	17
Other	–	<b>(11)</b>	<b>(1)</b>	–	<b>(12)</b>
	–	–	–	–	–
Earnings (loss) attributable to equity owners of the Company	<b>71</b>	<b>85</b>	–	<b>(5)</b>	<b>151</b>
	207	51	(3)	1	256

(\$ millions)	Year Ended December 31				
2019					
2018	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
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
Adjusted earnings (loss)	<b>424</b>	<b>261</b>	<b>(77)</b>	–	<b>608</b>
	434	247	(74)	–	607
Gain on sale of operations	<b>125</b>	–	–	–	<b>125</b>
	–	–	–	–	–
Restructuring and other costs	–	–	–	–	–
	(36)	(19)	(5)	–	(60)
Proceed from Termination of PPA	–	–	–	–	–
	36	–	–	–	36
Sale of Barking Power assets	–	–	–	–	–
	87	–	–	–	87
Unrealized (losses) gains on mark-to-market forward and swap commodity contracts	<b>(14)</b>	<b>5</b>	<b>14</b>	–	<b>5</b>
	31	–	–	–	31
Rate-regulated activities	<b>121</b>	<b>62</b>	–	<b>(2)</b>	<b>181</b>
	(55)	(82)	–	4	(133)
IT Common Matter decision	<b>(12)</b>	<b>(11)</b>	–	–	<b>(23)</b>
	–	–	–	–	–
Dividends on equity preferred shares of Canadian Utilities Limited	<b>3</b>	<b>2</b>	<b>62</b>	–	<b>67</b>
	4	2	61	–	67
Other	–	<b>(11)</b>	<b>(1)</b>	–	<b>(12)</b>
	–	(1)	–	–	(1)
Earnings (loss) attributable to equity owners of the Company	<b>647</b>	<b>308</b>	<b>(2)</b>	<b>(2)</b>	<b>951</b>
	501	147	(18)	4	634

### GAIN ON SALE OF OPERATIONS

In 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio and ownership interest in Alberta PowerLine. In the full year of 2019, the sales resulted in an aggregate gain of \$125 million (after-tax). As this gain is related to a series of one-time transactions, it is excluded from adjusted earnings.

### RESTRUCTURING AND OTHER COSTS

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

### PROCEEDS FROM TERMINATION OF PPA

Effective September 30, 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a \$62 million payment (\$45 million after-tax) from the Balancing Pool. The payment has been recorded as proceeds from termination of PPA in the statement of earnings in 2018. Additional Battle River generating facility coal-related costs and Asset Retirement Obligations of \$9 million

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

#### **SALE OF BARKING POWER ASSETS**

In the fourth quarter of 2018, Canadian Utilities sold its 100 per cent ownership interest in Barking Power assets. An after-tax gain in the amount of \$87 million was excluded from adjusted earnings.

#### **UNREALIZED GAINS (LOSSES) ON MARK-TO-MARKET FORWARD AND SWAP COMMODITY CONTRACTS**

Prior to the sale of the Canadian fossil fuel based electricity generation portfolio, 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 Electricity operating segment earnings 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 operations, 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. Unrealized gains and losses due to changes in the fair value of the fixed-price swap commodity contracts are recognized in the Corporate & Other segment earnings.

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 natural gas distribution, natural gas transmission and international natural gas distribution 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
<b>Additional revenues billed in current period</b>	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.
<b>Revenues to be billed in future periods</b>	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.
<b>Regulatory decisions received</b>	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.
<b>Settlement of regulatory decisions and other items</b>	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:

(\$ millions)	Three Months Ended December 31			Year Ended December 31		
	2019	2018	Change	2019	2018	Change
<b>Additional revenues billed in current period</b>						
Future removal and site restoration costs <sup>(1)</sup>	9	16	(7)	65	74	(9)
Impact of colder temperatures <sup>(2)</sup>	(2)	-	(2)	13	12	1
<b>Revenues to be billed in future periods</b>						
Deferred income taxes <sup>(3)</sup>	(24)	(26)	2	(103)	(105)	2
Deferred income taxes due to decrease in provincial corporate tax <sup>(4)</sup>	-	-	-	203	-	203
Impact of warmer temperatures <sup>(2)</sup>	-	(6)	6	-	-	-
Impact of inflation on rate base <sup>(5)</sup>	(3)	(17)	14	(13)	(17)	4
<b>Regulatory decisions received (see below)</b>	<b>3</b>	-	3	<b>6</b>	-	6
<b>Settlement of regulatory decisions and other items <sup>(6)</sup></b>	<b>1</b>	(4)	5	<b>10</b>	(97)	107
	<b>(16)</b>	(37)	21	<b>181</b>	(133)	314

(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) Natural gas distribution 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. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings in the second quarter of 2019 by \$203 million.

(5) The inflation-indexed portion of the international natural gas distribution 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, electricity transmission recorded a decrease in earnings of \$38 million mainly related to a refund of deferral account balances relating to 2013 and 2014. Natural gas distribution also recorded a reduction in earnings of \$59 million related to a refund of previously over-collected transmission costs.

## Regulatory Decisions Received

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

Decision	Amount	Description
1. Information Technology (IT) Common Matters	23	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.  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.
2. ATCO Electric Transmission General Tariff Application (GTA)	(17)	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.

### 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 not be included in adjusted earnings.

### OTHER

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.

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.

# RECONCILIATION OF FUNDS GENERATED BY OPERATIONS TO CASH FLOWS FROM OPERATING ACTIVITIES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

(\$ millions)

2019	Three Months Ended December 31	Year Ended December 31
2018		
Funds generated by operations	<b>442</b>	<b>1,797</b>
	460	1,782
Changes in non-cash working capital	<b>(76)</b>	<b>(259)</b>
	(35)	(109)
Change in receivable under service concession arrangement	<b>(28)</b>	<b>(180)</b>
	(93)	(803)
Cash flows from operating activities	<b>338</b>	<b>1,358</b>
	332	870

# RECONCILIATION OF CAPITAL INVESTMENT TO CAPITAL EXPENDITURES

Capital investment is defined as cash used for capital expenditures, business combinations, service concession arrangements, and cash used in the Company's proportional share of capital expenditures in joint ventures. In management's opinion, capital investment reflects the Company's total cash investment in assets. Capital expenditures includes additions to property, plant and equipment and intangibles as well as interest capitalized during construction. A reconciliation of capital investments to capital expenditures is presented in this MD&A.

(\$ millions)		Three Months Ended December 31			
2019					
2018	Electricity	Pipelines & Liquids	CUL Corporate & Other		Consolidated
Capital Investment	<b>111</b>	<b>260</b>	<b>3</b>		<b>374</b>
	203	174	3		380
Capital Expenditure in joint ventures	<b>(1)</b>	<b>1</b>			
	(3)	(1)			(4)
Service concession arrangement					
	-	-	-		-
	(44)	-	-		(44)
Capital Expenditures	<b>110</b>	<b>261</b>	<b>3</b>		<b>374</b>
	156	173	3		332

(\$ millions)		Year Ended December 31			
2019					
2018	Electricity	Pipelines & Liquids	CUL Corporate & Other		Consolidated
Capital Investment	<b>543</b>	<b>677</b>	<b>6</b>		<b>1,226</b>
	1,287	648	16		1,951
Capital Expenditure in joint ventures	<b>(2)</b>				<b>(2)</b>
	(14)	(5)			(19)
Business Combination <sup>(1)</sup>					
	-	-	-		-
	(112)	-	-		(112)
Service concession arrangement	<b>(95)</b>				<b>(95)</b>
	(664)	-	-		(664)
Capital Expenditures	<b>446</b>	<b>677</b>	<b>6</b>		<b>1,129</b>
	497	643	16		1,156

(1) Business combinations includes Canadian Utilities' first quarter 2018 acquisition of Electricidad de Golfo, a long-term contracted, 35-MW hydroelectric power station in the state of Veracruz, Mexico.

# OTHER FINANCIAL INFORMATION

## OFF BALANCE SHEET ARRANGEMENTS

Canadian Utilities does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

## CONTINGENCIES

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

## SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 26 of the 2019 Consolidated Financial Statements, which are prepared in accordance with IFRS. 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 ongoing basis; changes to accounting estimates are recognized prospectively.

## ACCOUNTING CHANGES

On January 1, 2019, the Company adopted the new accounting standard, IFRS 16 *Leases*, which replaces IAS 17 *Leases* and related interpretations. This standard introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance.

The Company adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in the 2019 Consolidated Financial Statements is not restated.

On adoption of the new standard on January 1, 2019, the Company recognized \$67 million of right-of-use assets and \$67 million of lease liabilities. The right-of-use assets and lease liabilities relate to leases for land and buildings. From January 1, 2019, the Company recognizes depreciation expense on right-of-use assets and interest expense on lease liabilities with lease payments recorded as a reduction of the lease liability. Prior to the adoption of IFRS 16, lease payments were recorded as expenses in the statement of earnings. The adoption of IFRS 16 has not had a significant impact on earnings. Further information on the adoption of IFRS 16, right-of-use assets and lease liabilities are provided in Notes 3 and 19 of the 2019 Consolidated Financial Statements.

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.

There are no other new or amended standards issued, but not yet effective, that the Company anticipates will have a material effect on the 2019 Consolidated Financial Statements once adopted.

## DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2019, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure this information is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions on required disclosure.

Management, including the CEO and the CFO, does not expect the Company's disclosure controls and procedures will prevent or detect all errors. The inherent limitations in all control systems are that they can provide only reasonable, not absolute, assurance that all control issues and instances of error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures were effective at December 31, 2019.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

As of December 31, 2019, management evaluated the effectiveness of the Company's internal control over financial reporting as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the CEO and the CFO have concluded that the Company's internal control over financial reporting was effective at December 31, 2019.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2019, and ended on December 31, 2019, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **FORWARD-LOOKING INFORMATION**

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Any forward-looking information contained in this MD&A represents the Company's expectations as of the date hereof, and is subject to change after such date. The Company disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

## **ADDITIONAL INFORMATION**

Canadian Utilities has published its 2019 Consolidated Financial Statements and its MD&A for the year ended December 31, 2019. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email [investorrelations@atco.com](mailto:investorrelations@atco.com).

# GLOSSARY

**AESO** means the Alberta Electric System Operator.

**Alberta Power Pool** means the market for electricity in Alberta operated by AESO.

**Alberta Utilities** means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

**AUC** means the Alberta Utilities Commission.

**Availability** is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

**Average weekly earnings (AWE)** is an indicator of short-term employee earnings growth.

**Class A shares** means Class A non-voting shares of the Company.

**Class B shares** means Class B common shares of the Company.

**CODM** means Chief Operating Decision Maker, and is comprised of the Executive Chair, President & Chief Executive Officer, and the other members of the Executive Committee.

**Company** means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries and joint arrangements.

**Consumer price index (CPI)** measures the average change in prices over time that consumers pay for a basket of goods and services.

**DRIP** means the dividend reinvestment plan (refer to the "Dividend Reinvestment Plan" section of this MD&A).

**Earnings** means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

**GAAP** means Canadian generally accepted accounting principles.

**GHG** means greenhouse gas.

**Gigajoule (GJ)** is a unit of energy equal to approximately 948.2 thousand British thermal units.

**IFRS** means International Financial Reporting Standards.

**K Bar** means the AUC allowance for capital additions under performance based regulation.

**Kilowatt (kW)** is a measure of electric power equal to 1,000 watts.

**Megawatt (MW)** is a measure of electric power equal to 1,000,000 watts.

**Megawatt hour (MWh)** is a measure of electricity consumption equal to the use of 1,000,000 watts of electricity over a one-hour period.

**PBR** means Performance Based Regulation.

**PPA** means Power Purchase Arrangements.

**Regulated Utilities** means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas), Natural Gas Transmission (ATCO Pipelines) and International Natural Gas Distribution (ATCO Gas Australia).



# APPENDIX 1

## FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2019 and 2018 is shown below.

### CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
<i>(millions of Canadian Dollars except per share data)</i>	2019	2018
<b>Revenues</b>	<b>929</b>	1,035
<b>Costs and expenses</b>		
Salaries, wages and benefits	(82)	(108)
Energy transmission and transportation	(49)	(44)
Plant and equipment maintenance	(65)	(62)
Fuel costs	(28)	(60)
Purchased power	(51)	(52)
Service concession arrangement costs	(9)	(44)
Depreciation and amortization	(154)	(147)
Franchise fees	(67)	(50)
Property and other taxes	(16)	(42)
Other	(82)	(89)
	<b>(603)</b>	(698)
<b>Gain on sale of operations</b>	<b>21</b>	–
<b>Gain on sale of Barking Power assets</b>	–	125
<b>Earnings from investment in joint ventures</b>	<b>6</b>	5
<b>Operating profit</b>	<b>353</b>	467
Interest income	8	3
Interest expense	(120)	(128)
<b>Net finance costs</b>	<b>(112)</b>	(125)
<b>Earnings before income taxes</b>	<b>241</b>	342
<b>Income taxes</b>	<b>(88)</b>	(84)
<b>Earnings for the period</b>	<b>153</b>	258
<b>Earnings attributable to:</b>		
Equity Owners of the Company	151	256
Non-controlling interests	2	2
	<b>153</b>	258
<b>Earnings per Class A and Class B share</b>	<b>\$0.49</b>	\$0.87
<b>Diluted earnings per Class A and Class B share</b>	<b>\$0.49</b>	\$0.87

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended December 31	
<i>(millions of Canadian Dollars)</i>	2019	2018
<b>Operating activities</b>		
Earnings for the period	153	258
Adjustments to reconcile earnings to cash flows from operating activities	289	202
Changes in non-cash working capital	(76)	(35)
Change in receivable under service concession arrangement	(28)	(93)
<b>Cash flows from operating activities</b>	<b>338</b>	<b>332</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(347)	(269)
Proceeds on disposal of property, plant and equipment	2	2
Proceeds on sale of Barking Power assets	-	219
Additions to intangibles	(24)	(59)
Proceeds on sales of operations, net of cash disposed	222	-
Proceeds on sale of ASHCOR, net of cash disposed	20	-
Changes in non-cash working capital	30	29
Other	(2)	(3)
<b>Cash flows used in investing activities</b>	<b>(99)</b>	<b>(81)</b>
<b>Financing activities</b>		
Net repayment of short-term debt	-	(25)
Issue of long-term debt	5	386
Release of restricted project funds	146	81
Repayment of long-term debt	(2)	(3)
Repayment of non-recourse long-term debt	(7)	(5)
Repayment of lease liabilities	(3)	-
Dividends paid on equity preferred shares	(17)	(17)
Dividends paid to non-controlling interests	(2)	(2)
Dividends paid to Class A and Class B share owners	(115)	(92)
Interest paid	(135)	(134)
Other	-	18
<b>Cash flows (used in) from financing activities</b>	<b>(130)</b>	<b>207</b>
<b>Increase in cash position</b>	<b>109</b>	<b>458</b>
Foreign currency translation	(35)	7
Beginning of period	903	134
<b>End of period</b>	<b>977</b>	<b>599</b>