An ATCO Company

CU INC.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

	Page
Management's Responsibility for Financial Reporting	2
Independent Auditor's Report	3
Consolidated Statements of Earnings	6
Consolidated Statements of Comprehensive Income	7
Consolidated Balance Sheets	8
Consolidated Statements of Changes in Equity	9
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	
General Information	
1. The Company and its Operations	11
2. Basis of Presentation	11
3. Change in Accounting Policies	12
Information on Financial Performance	
4. Segmented Information	13
5. Revenues	16
6. Other Costs and Expenses	16
7. Interest Expense	16
8. Income Taxes	17
Information on Financial Position	
9. Inventories	18
10. Property, Plant and Equipment	18
11. Intangibles	19
12. Short-Term Debt	19
13. Long-Term Debt	20
14. Retirement Benefits	20
15. Balances from Contracts with Customers	22
16. Equity Preferred Shares and Equity Preferred Shares to Parent Company	23
17. Class A and Class B Shares	24
Information on Cash Flow	
18. Cash Flow Information	24
Risk	
19. Financial Instruments	26
20. Risk Management	27
21. Capital Disclosures	29
22. Significant Judgments, Estimates and Assumptions	30
Group Structure	
23. Subsidiaries	32
Other Information	
24. Contingencies	32
25. Commitments	32
26. Related Party Transactions	33
27. Accounting Policies	34

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

[Original signed by N.C. Southern]	[Original signed by D. A. DeChamplain]
Chair & Chief Executive Officer	Senior Vice President & Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Share Owner of CU Inc.

OUR OPINION

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

What we have audited

The Company's consolidated financial statements comprise:

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

BASIS FOR OPINION

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

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

Independence

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

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

[Original signed by “PricewaterhouseCoopers LLP”]

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta

February 27, 2019

CONSOLIDATED STATEMENTS OF EARNINGS

(millions of Canadian Dollars)	Note	Year Ended December 31 2018	2017
Revenues	5	**2,507**	2,626
Costs and expenses			
Salaries, wages and benefits		**(241)**	(240)
Energy transmission and transportation		**(178)**	(208)
Plant and equipment maintenance		**(147)**	(144)
Fuel costs		**(15)**	(15)
Purchased power		**(80)**	(74)
Depreciation and amortization	10,11	**(512)**	(478)
Franchise fees		**(208)**	(229)
Property and other taxes		**(69)**	(69)
Other	6	**(237)**	(210)
		(1,687)	(1,667)
Operating profit		**820**	959
Interest income		**15**	15
Interest expense	7	**(362)**	(354)
Net finance costs		**(347)**	(339)
Earnings before income taxes		**473**	620
Income taxes	8	**(128)**	(169)
Earnings for the year		**345**	451

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Note	Year Ended December 31 2018	2017
Earnings for the year		**345**	451
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [(1)]	14	**4**	(4)
Comprehensive income for the year		**349**	447

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

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	December 31 2018	2017
ASSETS			
Current assets			
Cash		**21**	29
Accounts receivable and contract assets	15	**366**	350
Accounts receivable from parent and affiliate companies	26	**39**	44
Long-term advances to affiliate company	26	**52**	–
Inventories	9	**15**	25
Prepaid expenses and other current assets		**27**	20
		520	468
Non-current assets			
Property, plant and equipment	10	**15,089**	14,631
Intangibles	11	**557**	521
Long-term advances to affiliate company	26	**78**	130
Other assets		**11**	15
Total assets		**16,255**	15,765
LIABILITIES			
Current liabilities			
Bank indebtedness		–	3
Accounts payable and accrued liabilities		**410**	461
Accounts payable to parent and affiliate companies	26	**42**	41
Other current liabilities		**6**	19
Short-term debt	12	**25**	–
Long-term debt	13	**480**	–
		963	524
Non-current liabilities			
Deferred income tax liabilities	8	**1,325**	1,200
Retirement benefit obligations	14	**149**	152
Customer contributions	15	**1,683**	1,649
Other liabilities		**18**	31
Long-term debt	13	**7,472**	7,567
Total liabilities		**11,610**	11,123
EQUITY			
Equity preferred shares	16	**187**	187
Equity preferred shares to parent company	16,26	**79**	79
Class A and Class B share owner's equity			
Class A and Class B shares	17	**1,056**	1,056
Retained earnings		**3,323**	3,320
		4,379	4,376
Total equity		**4,645**	4,642
Total liabilities and equity		**16,255**	15,765

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]
DIRECTOR

[Original signed by R.J. Urwin]
DIRECTOR

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian Dollars)	**Note**	**Class A and Class B Shares**	**Equity Preferred Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Equity**
December 31, 2016		1,056	266	3,163	–	4,485
Earnings for the year		–	–	451	–	451
Other comprehensive loss		–	–	–	(4)	(4)
Losses on retirement benefits transferred to retained earnings	14	–	–	(4)	4	–
Dividends	16,17	–	–	(290)	–	(290)
December 31, 2017		1,056	266	3,320	–	4,642
Earnings for the year		–	–	**345**	–	**345**
Other comprehensive income		–	–	–	**4**	**4**
Gains on retirement benefits transferred to retained earnings	14	–	–	**4**	**(4)**	–
Dividends	16,17	–	–	**(346)**	–	**(346)**
December 31, 2018		**1,056**	**266**	**3,323**	–	**4,645**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Year Ended December 31 2018	2017
Operating activities			
Earnings for the year		**345**	451
Adjustments to reconcile earnings to cash flows from operating activities	18	**987**	987
Changes in non-cash working capital	18	**19**	23
Cash flows from operating activities		**1,351**	1,461
Investing activities			
Additions to property, plant and equipment		**(884)**	(1,010)
Proceeds on disposal of property, plant and equipment		**1**	–
Additions to intangibles		**(93)**	(80)
Changes in non-cash working capital	18	**(82)**	(5)
Other		**1**	1
Cash flows used in investing activities		**(1,057)**	(1,094)
Financing activities			
Issue of short-term debt	12,18	**25**	–
Issue of long-term debt	13,18	**387**	430
Repayment of long-term debt		**–**	(150)
Dividends paid on equity preferred shares	16	**(11)**	(10)
Dividends paid to Class A and Class B share owner	17	**(335)**	(280)
Interest paid		**(377)**	(363)
Interest received from parent and affiliate companies	26	**15**	12
Long-term debt issue costs		**(3)**	(3)
Other		**–**	(1)
Cash flows used in financing activities		**(299)**	(365)
(Decrease) increase in cash position		**(5)**	2
Beginning of year		**26**	24
End of year	18	**21**	26

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

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

1. THE COMPANY AND ITS OPERATIONS

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

CU Inc. is engaged in the following business activities:

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

The consolidated financial statements include the accounts of CU Inc. and its subsidiaries (see Note 23). In these financial statements, "the Company" means CU Inc. and its subsidiaries.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

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

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

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 27.

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, estimates and assumptions are described in Note 22.

3. CHANGE IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS CREDIT LOSSES

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

Impact of adoption of IFRS 9 on consolidated financial statements

To determine the amount of expected credit losses, the Company used default and recoverability probabilities. At January 1, 2018 the total credit loss provision was less than a million, which was determined based on third party average default and recoverability probabilities. There was no credit loss provision recorded on adoption of IFRS 9.

REVENUE RECOGNITION

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

See Note 27 for accounting policies on revenue recognition.

Practical expedients

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

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

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

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

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

- Provision of continuous distribution of electricity service;
- Provision of continuous distribution of natural gas service;
- Provision of transmission of electricity service; and
- Provision of transmission of natural gas service.

IMPACT OF CHANGES IN ACCOUNTING POLICIES

As the Company has utilized the practical expedients noted above, there was no impact on the prior year consolidated statement of earnings, balance sheet, statement of changes in equity and statement of cash flow.

4. SEGMENTED INFORMATION

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

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

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

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

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

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

2018 **2017**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues - external	**1,318**	**1,189**	–	–	**2,507**
	1,272	1,354	–	–	2,626
Revenues - intersegment	–	**1**	–	**(1)**	–
	1	1	–	(2)	–
Revenues	**1,318**	**1,190**	–	**(1)**	**2,507**
	1,273	1,355	–	(2)	2,626
Operating expenses [1]	**(489)**	**(693)**	–	**7**	**(1,175)**
	(464)	(727)	–	2	(1,189)
Depreciation and amortization	**(313)**	**(199)**	–	–	**(512)**
	(303)	(175)	–	–	(478)
Net finance costs	**(224)**	**(124)**	**1**	–	**(347)**
	(225)	(114)	–	–	(339)
Earnings before income taxes	**292**	**174**	**1**	**6**	**473**
	281	339	–	–	620
Income taxes	**(78)**	**(48)**	–	**(2)**	**(128)**
	(77)	(92)	–	–	(169)
Earnings for the year	**214**	**126**	**1**	**4**	**345**
	204	247	–	–	451
Adjusted earnings	**288**	**182**	**1**	**4**	**475**
	330	212	–	–	542
Total assets	**10,123**	**6,021**	**139**	**(28)**	**16,255**
	9,952	5,685	138	(10)	15,765
Capital expenditures [2]	**467**	**529**	–	–	**996**
	438	669	–	–	1,107

(1) Includes total costs and expenses, excluding depreciation and amortization expense.
(2) Includes additions to property, plant and equipment and intangibles and $19 million of interest capitalized during construction for the year ended December 31, 2018 (2017 - $17 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings for the period after adjusting for:

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

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

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

2018 2017	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**288**	**182**	**1**	**4**	**475**
	330	212	–	–	542
Restructuring and other costs	**(25)**	**(14)**	–	–	**(39)**
	–	–	–	–	–
Rate-regulated activities	**(55)**	**(47)**	–	–	**(102)**
	(131)	30	–	–	(101)
Dividends on equity preferred shares of the Company	**6**	**5**	–	–	**11**
	5	5	–	–	10
Earnings for the year	**214**	**126**	**1**	**4**	**345**
	204	247	–	–	451

Restructuring and other costs

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

Rate-regulated activities

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

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

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

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

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

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

	2018	2017
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**74**	61
Impact of colder temperatures (2)	**12**	–
Revenues to be billed in future periods		
Deferred income taxes (3)	**(103)**	(99)
Impact of warmer temperatures (2)	–	(4)
Regulatory decisions received (4)	–	17
Settlement of regulatory decisions and other items (5)	**(85)**	(76)
	(102)	(101)

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

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

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

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

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

5. REVENUES

The Company disaggregates revenues from contracts with customers based on the revenue streams of the operating segments.

The disaggregation of revenues by revenue streams by each operating segment for the year ended December 31 are shown below:

2018 2017	Electricity	Pipelines & Liquids	Corporate & Other	Total
Revenue Streams				
Rendering of Services				
Distribution services	**567**	**742**	**–**	**1,309**
	505	867	–	1,372
Transmission services	**622**	**245**	**–**	**867**
	629	256	–	885
Customer contributions	**32**	**18**	**–**	**50**
	26	18	–	44
Franchise fees	**25**	**183**	**–**	**208**
	22	207	–	229
Total rendering of services	**1,246**	**1,188**	**–**	**2,434**
	1,182	1,348	–	2,530
Other	**72**	**1**	**–**	**73**
	90	6	–	96
Total	**1,318**	**1,189**	**–**	**2,507**
	1,272	1,354	–	2,626

6. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, utilities and goods and services such as professional fees, contractor costs, technology related expenses, advertising and other general and administrative expenses.

7. INTEREST EXPENSE

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

	2018	2017
Long-term debt	**372**	363
Retirement benefits net interest expense	**3**	3
Amortization of deferred financing charges	**1**	1
Other	**5**	4
	381	371
Less: interest capitalized *(Note 10)*	**(19)**	(17)
	362	354

Borrowing costs capitalized to property, plant and equipment during 2018 were calculated by applying a weighted average interest rate of 4.80 per cent to expenditures on qualifying assets (2017 - 4.84 per cent).

8. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2018	2017
Current income tax expense		
Expenses for the year	**6**	44
Adjustment in respect of prior years	**(1)**	–
	5	44
Deferred income tax expense		
Reversal of temporary differences	**123**	125
Adjustment in respect of prior years	**–**	–
	123	125
	128	169

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

	2018		2017	
Earnings before income taxes	**473**	**%**	620	%
Income taxes, at statutory rates	**128**	**27.0**	167	27.0
Other	**–**	**–**	2	0.3
	128	**27.0**	169	27.3

INCOME TAX ASSETS AND LIABILITIES

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

	Balance Sheet Presentation	2018	2017
Income tax assets			
Current	Prepaid expenses and other current assets	**16**	–
Income tax liabilities			
Current	Other current liabilities	**–**	14
Deferred	Deferred income tax liabilities	**1,325**	1,200

DEFERRED INCOME TAX

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2016	1,044	116	(76)	(36)	28	1,076
Charge (credit) to earnings	132	(18)	3	(8)	16	125
Other	–	–	–	(1)	–	(1)
December 31, 2017	1,176	98	(73)	(45)	44	1,200
Charge (credit) to earnings	**124**	**9**	**4**	**–**	**(14)**	**123**
Charge to other comprehensive income	**–**	**–**	**–**	**1**	**–**	**1**
Other	**(2)**	**(1)**	**2**	**4**	**(2)**	**1**
December 31, 2018	**1,298**	**106**	**(67)**	**(40)**	**28**	**1,325**

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

At the end of 2018, the Company had $283 million of non-capital tax losses and credits which expire between 2034 and 2037. The Company recognized deferred income tax assets of $67 million for these losses and credits.

9. INVENTORIES

Inventories at December 31 are comprised of:

	2018	2017
Natural gas and fuel in storage	**8**	9
Raw materials and consumables	**7**	13
Work-in-progress	**–**	3
	15	25

For the year ended December 31, 2018, inventories recognized as an expense were $5 million (2017 - $3 million).

10. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2016	16,290	580	476	624	17,970
Additions	311	3	719	3	1,036
Transfers	669	36	(741)	36	–
Retirements and disposals	(126)	(9)	(15)	(15)	(165)
December 31, 2017	17,144	610	439	648	18,841
Additions	**2**	**1**	**920**	**–**	**923**
Transfers	**872**	**10**	**(904)**	**22**	**–**
Retirements and disposals	**(72)**	**(3)**	**–**	**(13)**	**(88)**
December 31, 2018	**17,946**	**618**	**455**	**657**	**19,676**
Accumulated depreciation					
December 31, 2016	3,567	130	–	233	3,930
Depreciation	385	18	–	27	430
Retirements and disposals	(126)	(9)	–	(15)	(150)
December 31, 2017	3,826	139	–	245	4,210
Depreciation	**411**	**19**	**–**	**34**	**464**
Retirements and disposals	**(72)**	**(2)**	**–**	**(13)**	**(87)**
December 31, 2018	**4,165**	**156**	**–**	**266**	**4,587**
Net book value					
December 31, 2017	13,318	471	439	403	14,631
December 31, 2018	**13,781**	**462**	**455**	**391**	**15,089**

The additions to property, plant and equipment included $19 million of interest capitalized during construction for the year ended December 31, 2018 (2017 - $17 million).

11. INTANGIBLES

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

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2016	505	324	9	838
Additions	57	23	–	80
Retirements	(20)	(1)	–	(21)
December 31, 2017	542	346	9	897
Additions	**50**	**25**	–	**75**
Retirements	**(3)**	–	–	**(3)**
December 31, 2018	**589**	**371**	**9**	**969**
Accumulated amortization				
December 31, 2016	311	39	3	353
Amortization	39	5	–	44
Retirements	(20)	(1)	–	(21)
December 31, 2017	330	43	3	376
Amortization	**34**	**5**	–	**39**
Retirements	**(3)**	–	–	**(3)**
December 31, 2018	**361**	**48**	**3**	**412**
Net book value				
December 31, 2017	212	303	6	521
December 31, 2018	**228**	**323**	**6**	**557**

12. SHORT-TERM DEBT

At December 31, 2018, the Company had $25 million of commercial paper outstanding at an effective interest rate of 2.31 per cent, maturing in January 2019 (December 31, 2017 - nil). The outstanding balance was fully repaid in January 2019.

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

13. LONG-TERM DEBT

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

	Effective Interest Rate	2018	2017
CU Inc. debentures - unsecured [1]	4.838% (2017 - 4.881%)	**7,990**	7,605
CU Inc. other long-term obligation, due June 2020 - unsecured [2]	3.95% (2017 - 3.20%)	**5**	3
Less: deferred financing charges		**(43)**	(41)
		7,952	7,567
Less: amounts due within one year		**(480)**	–
		7,472	7,567

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

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

Debenture Issuances

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

14. RETIREMENT BENEFITS

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

The Company, together with Canadian Utilities Limited and its subsidiary companies, also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2018.

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

THE COMPANY'S BENEFIT PLANS

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

	2018		2017	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	**22**	**5**	30	5
Defined contribution plans cost	**19**	**–**	20	–
Total cost	**41**	**5**	50	5
Less: Capitalized	**24**	**3**	30	3
Net cost recognized	**17**	**2**	20	2
Accrued benefit obligations				
Beginning of year	54	98	47	95
Defined benefit plan cost	**22**	**5**	30	5
Benefit payments	**(5)**	**(3)**	(4)	(3)
Contributions to defined benefit plans	**(17)**	**–**	(22)	–
Actuarial (gains) losses [(1)]	**(1)**	**(4)**	3	1
End of year	**53**	**96**	54	98

(1) Gains net of income taxes were $4 million for the year ended December 31, 2018 (2017 - loss of $4 million).

WEIGHTED AVERAGE ASSUMPTIONS

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

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

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

FUNDING

An actuarial valuation for funding purposes as of December 31, 2017 was completed in 2018 for the registered defined benefit pension plans. The estimated contribution for 2019 is $17 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2020.

15. BALANCES FROM CONTRACTS WITH CUSTOMERS

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

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

	2018	2017
Trade accounts receivable and contract assets	**358**	347
Other accounts receivable	**8**	3
	366	350

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

	2018	2017
Trade accounts receivable from parent and affiliate companies	**36**	41
Other accounts receivable from parent and affiliate companies	**3**	3
	39	44

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

	Trade accounts receivable and contract assets	Trade accounts receivable from parent and affiliate companies	Total
December 31, 2016	331	25	356
Revenue from satisfied performance obligations	2,381	105	2,486
Customer billings and other items not included in revenue	26	3	29
Payments received	(2,391)	(92)	(2,483)
December 31, 2017, as previously reported	347	41	388
Revenue from satisfied performance obligations	**2,329**	**55**	**2,384**
Customer billings and other items not included in revenue	–	**7**	**7**
Payments received	**(2,318)**	**(67)**	**(2,385)**
December 31, 2018	**358**	**36**	**394**

CUSTOMER CONTRIBUTIONS

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

Changes in customer contributions balance are summarized below.

	2018	2017
Beginning of year	1,649	1,638
Receipt of customer contributions	**84**	55
Amortization	**(50)**	(44)
End of year	**1,683**	1,649

16. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

EQUITY PREFERRED SHARES

Authorized and issued

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

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

Rights and privileges

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

(1) Plus accrued and unpaid dividends.

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

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

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

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

EQUITY PREFERRED SHARES TO PARENT COMPANY

Authorized and issued

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

		2018		2017
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Perpetual Cumulative Second Preferred Shares				
4.60% Series V [1]	**3,176,578**	**79**	3,176,578	79

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

Rights and Privileges

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

DIVIDENDS

Cash dividends declared and paid per share are as follows:

(dollars per share)	2018	2017
Cumulative Redeemable Preferred Shares		
4.60% Series 1	**1.1500**	1.1500
2.243% Series 4	**0.5608**	0.5608
Perpetual Cumulative Second Preferred Shares		
4.60% Series V	**1.1500**	1.0000

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

On January 10, 2019, the Company declared first quarter eligible dividends of $0.2875 per Series 1 Preferred Share and $0.1401875 per Series 4 Preferred Share.

17. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2018 is shown below.

	Class A Non-Voting		Class B Common			Total
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2017 and 2018	**3,570,322**	**654**	**2,188,262**	**402**	**5,758,584**	**1,056**

Class A and B shares have no par value.

The Company declared and paid cash dividends of $58.17 per Class A non-voting share and Class B common share during 2018 (2017 - $48.63). The payment and amount of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

18. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

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

	Year Ended December 31	
	2018	**2017**
Depreciation and amortization	**512**	478
Income taxes	**128**	169
Contributions by utility customers for extensions to plant	**84**	55
Amortization of customer contributions	**(50)**	(44)
Net finance costs	**347**	339
Income taxes paid	**(18)**	(25)
Other	**(16)**	15
	987	987

CHANGES IN NON-CASH WORKING CAPITAL

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

	2018	2017
Operating activities		
Accounts receivable and contract assets	**(15)**	(19)
Accounts receivable from parent and affiliate companies	**5**	(16)
Inventories	**3**	1
Prepaid expenses and other current assets	**5**	(7)
Accounts payable and accrued liabilities	**14**	36
Accounts payable to parent and affiliate companies	**1**	31
Other current liabilities	**6**	(3)
	19	23
Investing activities		
Inventories	**(3)**	(1)
Prepaid expenses	**(2)**	–
Accounts payable and accrued liabilities	**(77)**	(4)
	(82)	(5)

LONG-TERM DEBT RECONCILIATION

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

	Long-term debt
Liabilities from financing activities	
December 31, 2016	7,289
Net issue of debt	280
Long-term debt issue costs	(3)
Amortization of deferred finance charges	1
December 31, 2017	7,567
Net issue of debt	**387**
Long-term debt issue costs	**(3)**
Amortization of deferred finance charges	**1**
December 31, 2018	**7,952**

CASH POSITION

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

	2018	2017
Cash	**21**	29
Bank indebtedness	**–**	(3)
	21	26

19. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, accounts receivable and contract assets, accounts receivable from parent and affiliate companies, bank indebtedness, accounts payable and accrued liabilities and accounts payable to parent and affiliate companies.	Assumed to approximate carrying value due to their short-term nature.
Long-term advances to affiliate company and long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).

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

		2018		2017
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances to affiliate company	**130**	**147**	130	156
Financial Liabilities				
Long-term debt	**7,952**	**8,591**	7,567	8,737

OFFSETTING FINANCIAL ASSETS

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

			2018			2017
Financial Assets	Gross Amount	Gross Amount Offset	Net Amount Recognized	Gross Amount	Gross Amount Offset	Net Amount Recognized
Accounts receivable and contract assets	**118**	**(76)**	**42**	100	(65)	35

20. RISK MANAGEMENT

FINANCIAL RISKS

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

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

MARKET RISK

Foreign exchange risk

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

CREDIT RISK

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

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

The Company does not have a concentration of credit risk with any counterparty. Accounts receivable and contract assets credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations. At December 31, 2018, the Company held $237 million in letters of credit for certain counterparty receivables (2017 - $205 million). The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 24).

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

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

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

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

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

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

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

	2018	2017
Up to 30 days	**355**	342
31 to 60 days	**2**	4
61 to 90 days	**–**	1
Over 90 days	**1**	1
	358	348

LIQUIDITY RISK

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

Lines of credit

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

			2018			2017
	Total	Used	Available	Total	Used	Available
Long-term committed	**900**	**25**	**875**	900	–	900
Uncommitted	**128**	**81**	**47**	128	78	50
	1,028	**106**	**922**	1,028	78	950

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

Lines of credit utilized at December 31 are comprised of:

	2018	2017
Current bank indebtedness	**–**	3
Short-term debt (Note 12)	**25**	–
Letters of credit	**81**	75
	106	78

Commercial paper

The Company is authorized to issue $700 million of commercial paper against its long-term committed credit facilities.

Maturity analysis of financial obligations

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

	2019	2020	2021	2022	2023	2024 and thereafter
Accounts payable and accrued liabilities	410	–	–	–	–	–
Accounts payable to parent and affiliate companies	42	–	–	–	–	–
Long-term debt:						
Principal	480	105	160	125	100	7,025
Interest expense	378	353	341	327	316	6,530
	1,310	458	501	452	416	13,555

21. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

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

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

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

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

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

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

	2018	2017
Bank indebtedness	–	3
Short-term debt	**25**	–
Long-term debt	**7,952**	7,567
Total debt	**7,977**	7,570
Class A and Class B shares	**1,056**	1,056
Retained earnings	**3,323**	3,320
Equity preferred shares	**187**	187
Equity preferred shares to parent company	**79**	79
Total equity	**4,645**	4,642
Total capitalization	**12,622**	12,212
Debt capitalization	**63%**	62%

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

22. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of financial assets

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

Impairment of long-lived assets

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

Property, plant and equipment and intangibles

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

Income taxes

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

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

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

Impairment of financial assets

The impairment loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. For details regarding significant assumptions and key inputs used to calculate impairment loss allowance, see Note 20.

Useful lives of property, plant and equipment and intangibles

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

Impairment of long-lived assets

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

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 14.

Income taxes

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

23. SUBSIDIARIES

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

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines	Canada	Natural gas transmission and related infrastructure development

24. CONTINGENCIES

Measurement inaccuracies occur from time to time on electricity and gas metering facilities. These measurement adjustments are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The AUC may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate.

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

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

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

25. COMMITMENTS

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

	2019	2020	2021	2022	2023	2024 and thereafter
Operating leases	7	7	5	3	3	–
Purchase obligations:						
Operating and maintenance agreements	287	296	291	287	285	266
Capital expenditures	68	–	–	–	–	–
Other	10	–	–	–	–	–
	372	303	296	290	288	266

26. RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH PARENT COMPANY OR ULTIMATE PARENT

Transaction	Recorded As	2018	2017
Rent, aircraft usage and licensing fees	Other expenses	**17**	20
Capital projects and building rent	Property, plant and equipment	**10**	8
Interest on short-term advances [(1)]	Interest income	**3**	–
Interest on short-term advances [(1)]	Interest expense	**1**	1
Equity preferred share dividends *(Note 16)*	Retained earnings	**4**	3

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

TRANSACTIONS WITH AFFILIATE COMPANIES

Transaction	Recorded As	2018	2017
Natural gas and electricity distribution, and management, planning and engineering services	Revenues	**55**	105
	Deferred revenues	**13**	(12)
Interest on long-term advances	Interest income	**12**	12
Purchase of natural gas	Fuel costs	**4**	3
Office services	Other expenses	**3**	4

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

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

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2018	2017
Receivables from related parties [(1)]	Accounts receivable from parent company	**7**	14
	Accounts receivable from affiliate companies	**32**	30
Long-term advances [(2)]	Current portion of long-term advances to affiliate company	**52**	–
	Long-term advances to affiliate company	**78**	130
Payables to related parties [(1)]	Accounts payable to parent company	**35**	40
	Accounts payable to affiliate companies	**7**	1
Equity preferred shares *(Note 16)*	Equity preferred shares to parent company	**79**	79

(1) *Generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.*

(2) *The effective interest rate on long-term advances, weighted by principal amounts outstanding, was 9.102 per cent in 2018 and 2017. The advances are unsecured and will be settled in cash. No provisions are held against the advances.*

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2018	2017
Salaries and short-term employee benefits	**6**	7
Retirement benefits	**1**	1
Share-based compensation	**1**	1
	8	9

Key management personnel comprise members of executive management and the Board, a total of 15 individuals (2017 - 13 individuals).

27. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

Electricity and natural gas transmission

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

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

Electricity and natural gas distribution

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

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

Franchise fees

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

SHORT-TERM EMPLOYEE BENEFITS

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

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

INCOME TAXES

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

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

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

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

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

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

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	2 to 65 years	50 years	2.0%
Electricity distribution equipment	10 to 103 years	37 years	2.7%
Gas transmission equipment	3 to 80 years	41 years	2.5%
Gas distribution plant and equipment	10 to 57 years	42 years	2.4%
Buildings	10 to 55 years	37 years	2.7%
Other plant, equipment and machinery	1 to 50 years	20 years	5.1%

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

INTANGIBLES

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

PROVISIONS

The Company recognizes provisions when:

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

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

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

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

CONTINGENCIES

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that

arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

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

Offsetting financial instruments

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

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

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

Derecognition of financial instruments

Financial assets are derecognized:

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

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

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

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

RETIREMENT BENEFITS

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2015.

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

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in OPEB and non-registered group defined benefit pension plans. These plans are administered on a combined basis, and the Company accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit method and reflect management's best estimates of wage and salary increases, age at retirement and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period.

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

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

For the non-registered defined benefit pension plan and the OPEB plans, gains and losses resulting from changes in assumptions, including the liability discount rate and future compensation rates, used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

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

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

RELATED PARTY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

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

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

Standard	Description	Effective Date
IFRS 16 *Leases*	This standard replaced IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance, however, the new standard may change the accounting treatment of certain components of lessor contracts and sub-leasing arrangements. The Company is in the process of finalizing its calculations using the modified retrospective approach effective January 1, 2019, without restatement of comparative information. The Company has elected to use certain practical expedients: • Leases of low-value assets and short-term leases that have a lease term of twelve months or less will not be recognized in the consolidated balance sheet on January 1, 2019. Payments on these leases will continue to be recognized as a lease expense generally on a straight-line basis over the lease term; and • Right-of-use assets will be measured with an equivalent value recorded for the related lease liabilities. The adoption of the new standard is expected to result in the recognition of a right-of-use asset and lease liability of approximately $10 million at January 1, 2019. The estimated impact may change as a result of additional updates on contractual terms, assumptions, and other circumstances arising after the date of these consolidated financial statements.	Effective for annual periods on or after January 1, 2019.