CANADIAN UTILITIES LIMITED
An ATCO Company

# CANADIAN UTILITIES LIMITED

# FINANCIAL INFORMATION

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

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# 2019 THIRD QUARTER FINANCIAL INFORMATION

**INVESTOR FACT SHEET**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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# Q3 2019 INVESTOR FACT SHEET

CanadianUtilities.com
ELECTRICITY | PIPELINES & LIQUIDS

CANADIAN UTILITIES LIMITED
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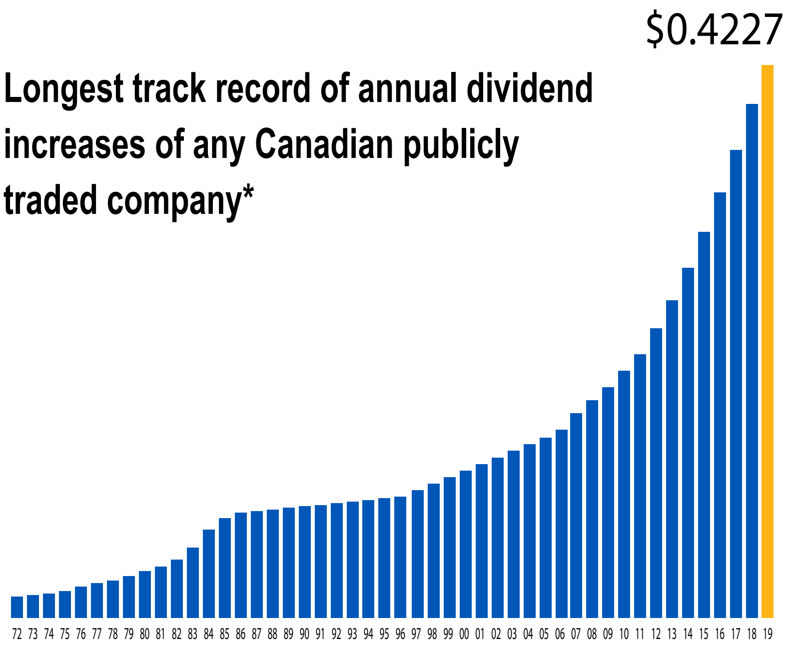
With approximately 5,000 employees and assets of $22 billion, Canadian Utilities Limited is an ATCO company. Canadian Utilities is a diversified global energy infrastructure corporation delivering service excellence and innovative business solutions in Electricity (electricity generation, transmission, and distribution); Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); and Retail Energy (electricity and natural gas retail sales).

## TRACK RECORD OF DIVIDEND GROWTH

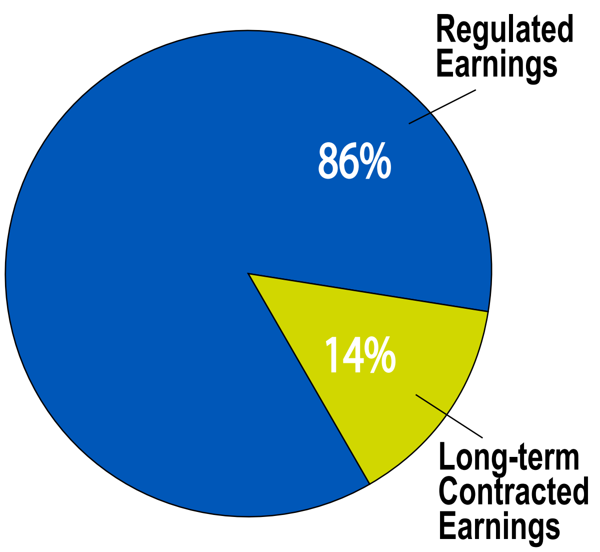
**Longest track record of annual dividend increases of any Canadian publicly traded company***




* On October 10, 2019, Canadian Utilities declared a fourth quarter dividend of $0.4227 per share, or $1.69 per share annualized.

## HIGH QUALITY EARNINGS BASE

### 2018 ADJUSTED EARNINGS



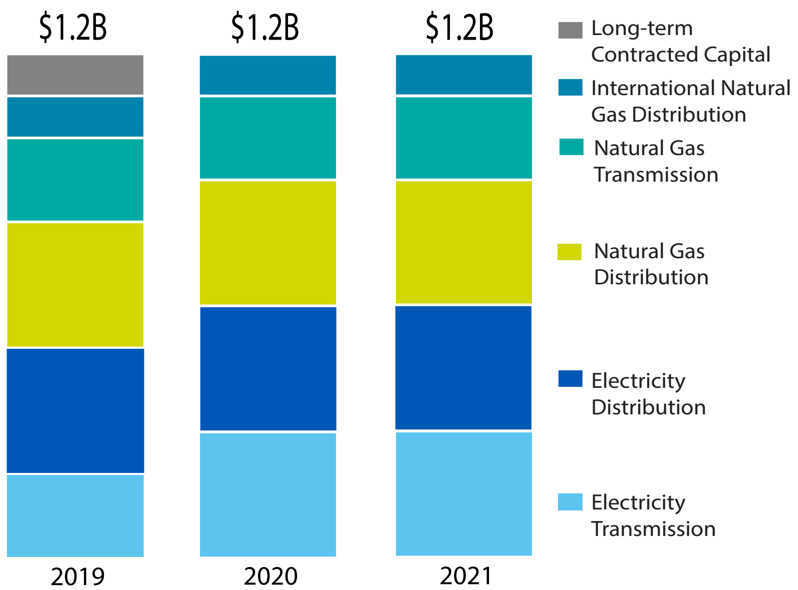

## CANADIAN UTILITIES AT A GLANCE

"A-" rating by Standard & Poor's; "A" rating by DBRS Limited

| | |
|---|---|
| Total Assets | $22 billion |
| Electric Powerlines | 87,000 kms |
| Pipelines | 64,500 kms |
| Generating Plants | 5 Globally |
| Power Generating Capacity Share | 244 MW * |
| Water Infrastructure Capacity | 85,200 $m^3$/d ** |
| Natural Gas Storage Capacity | 52 PJ *** |
| Hydrocarbon Storage Capacity | 400,000 $m^3$ **** |

*megawatts **cubic metres per day ***petajoules ****cubic metres

## FUTURE CAPITAL INVESTMENT




$3.6 billion in Regulated Utility and contracted capital growth projects expected in 2019 - 2021

## CANADIAN UTILITIES SHARE INFORMATION

Common Shares (TSX): CU, CU.X

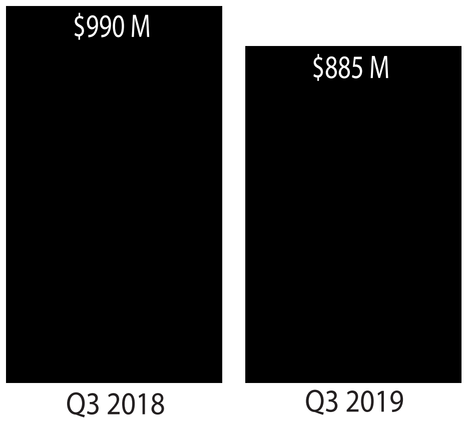
| | |
|---|---|
| Market Capitalization | $11 billion |
| Weighted Average Common Shares Outstanding | 272.6 million |

It is important for prospective owners of Canadian Utilities shares to understand that Canadian Utilities Limited is a diversified group of companies principally controlled by ATCO Ltd., which in turn is principally controlled by Sentgraf, a Southern family holding company. It is also important for present and prospective share owners to understand that the Canadian Utilities share registry has both Class A non-voting (CU) and Class B common (CU.X) shares.

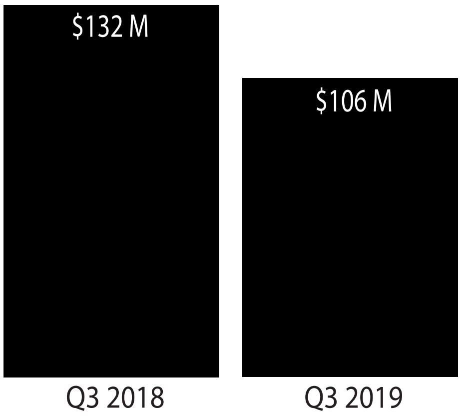
Adjusted earnings are earnings attributable to equity owners of the Company after adjusting for the timing of revenues and expenses associated with rate-regulated activities, dividends on equity preferred shares of the Company, and unrealized gains or losses on mark-to-market forward and swap commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations. Certain statements in this document contain forward-looking information. Please refer to our forward-looking information disclaimer in Canadian Utilities' management's discussion and analysis for more information.

# Q3 2019 RESULTS

## CONSOLIDATED REVENUES



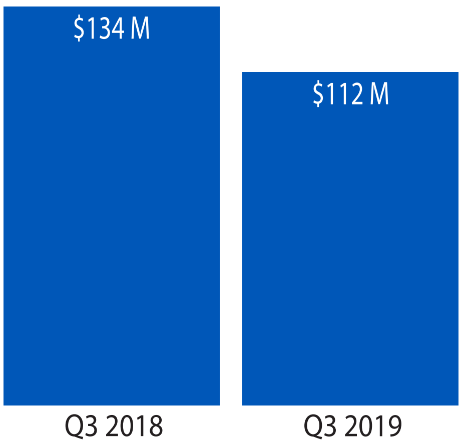

## CONSOLIDATED ADJUSTED EARNINGS




## ELECTRICITY

- Lower third quarter 2019 adjusted earnings were mainly due to favorable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA and associated availability incentive and performance payments. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 general tariff application decision which was received in the second quarter of 2019, cost efficiencies, lower income taxes, and improved realized forward sales in Independent Power Plants.
- On September 30, 2019, Canadian Utilities finalized the sale of its entire 2,100-MW Canadian fossil fuel-based electricity generation portfolio in a series of transactions. Canadian Utilities received $821 million of aggregate proceeds on the sale and recognized a gain on sale of $139 million (after-tax), which is excluded from adjusted earnings.
- On September 23, 2019, Canadian Utilities confirmed that seven Indigenous communities entered into definitive agreements to purchase a combined 40 per cent ownership in Alberta PowerLine (APL). The remaining 60 per cent of APL will be acquired by an investment consortium. Canadian Utilities will remain as the operator of APL over its 35-year contract with the Alberta Electric System Operator. The sale is expected to close in the fourth quarter of 2019, subject to receipt of regulatory and bondholder approvals, and satisfaction of other customary closing conditions.

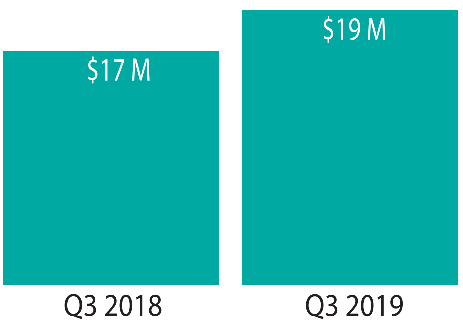
## ADJUSTED EARNINGS




## PIPELINES & LIQUIDS

- Higher third quarter 2019 adjusted earnings were mainly due to ongoing growth in the regulated rate base and lower income taxes.
- In August 2018, natural gas transmission filed a facilities application requesting approval for the installation of the Pembina-Keephills transmission pipeline. The 59-km high-pressure natural gas pipeline supports coal-to-gas conversion of power producers in the Genesee and surrounding areas of Alberta with the capacity to deliver up to 550 TJ per day. An Alberta Utilities Commission decision was received on August 6, 2019 approving the project as filed. Construction has commenced and the pipeline is expected to be in service by mid-2020. The estimated cost to construct this project is approximately $230 million and is included in natural gas transmission's three year capital investment plan.

## ADJUSTED EARNINGS

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CANADIAN UTILITIES LIMITED
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# CANADIAN UTILITIES LIMITED

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of Canadian Utilities Limited (Canadian Utilities, our, we, us, or the Company) during the nine months ended September 30, 2019.

This MD&A was prepared as of October 30, 2019, and should be read with the Company's unaudited interim consolidated financial statements for the nine months ended September 30, 2019. Additional information, including the Company's previous MD&As, Annual Information Form (2018 AIF), and audited consolidated financial statements for the year ended December 31, 2018, is available on SEDAR at www.sedar.com. Information contained in the 2018 MD&A is not discussed in this MD&A if it remains substantially unchanged.

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

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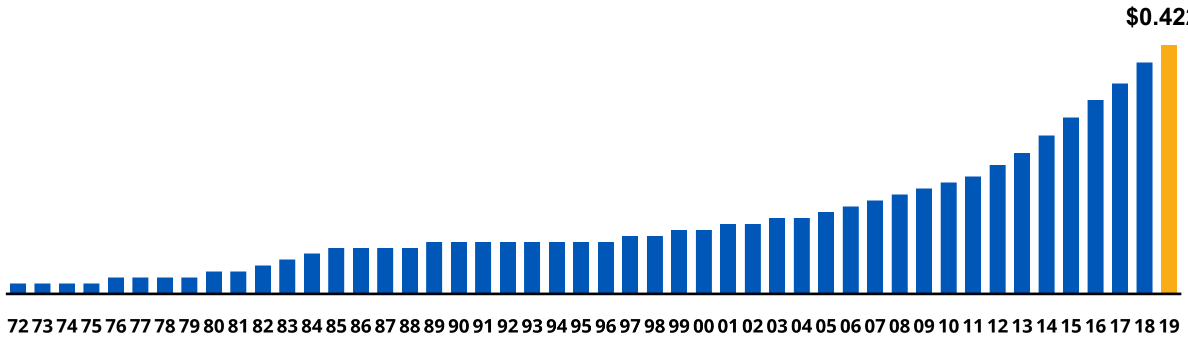
# CANADIAN UTILITIES: WHAT SETS US APART

## TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 47 years, the longest record of annual dividend increases of any Canadian publicly traded company. On October 10, 2019, we declared a fourth quarter dividend of 42.27 cents per share or $1.69 per share on an annualized basis. We aim to grow dividends in-line with our sustainable earnings growth, which is linked to growth from our regulated and long-term contracted investments.

**Quarterly Dividend Rate 1972 - 2019**
**(dollars per share)**




## GROWING A HIGH QUALITY EARNINGS BASE

Over the past ten years, Canadian Utilities has invested approximately $15 billion in regulated and long-term contracted operations. The Regulated Utility portion of total adjusted earnings has grown from 46 per cent in 2009 to 86 per cent in 2018. Our highly contracted and regulated earnings base provides the foundation for continued dividend growth.

## FUTURE CAPITAL INVESTMENT

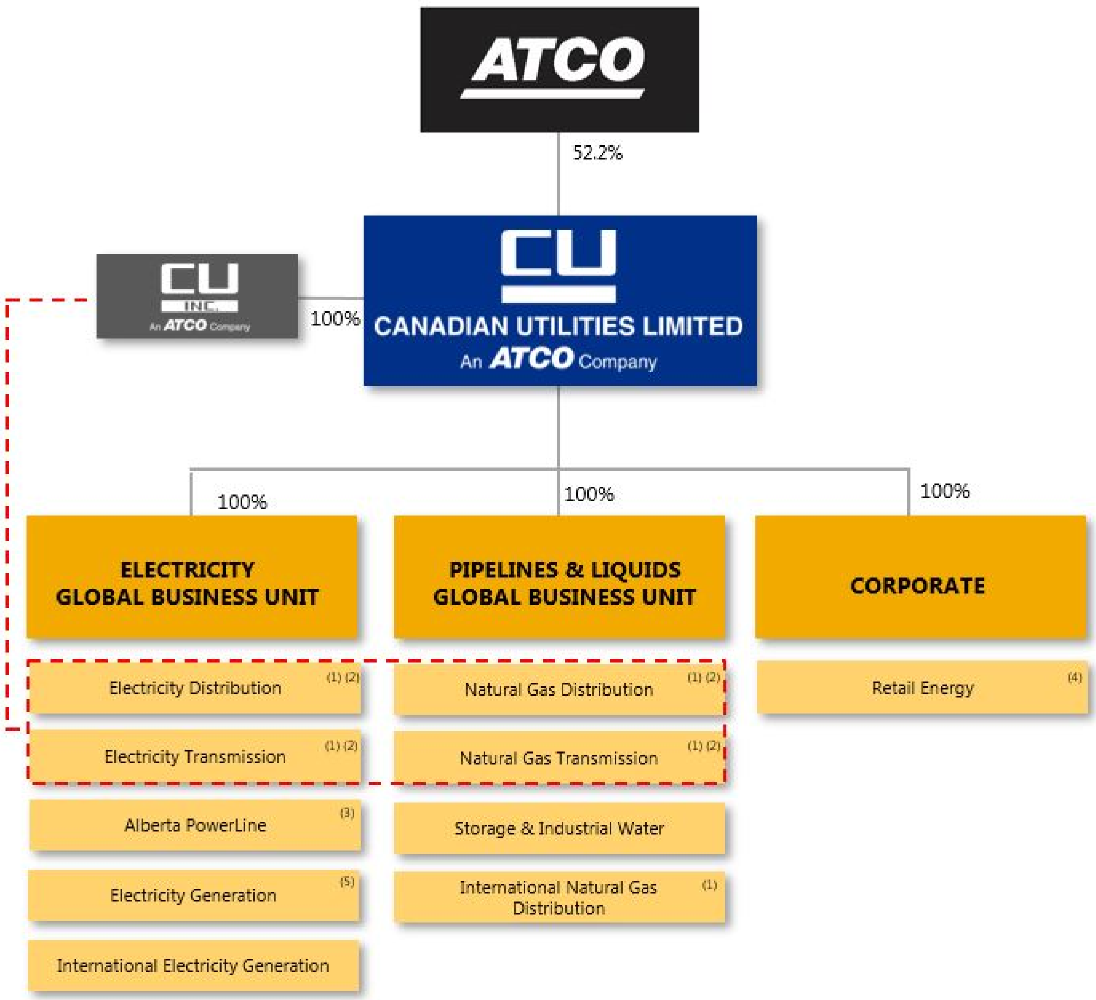
We will continue to grow our business in the years ahead. In the period 2019 to 2021, Canadian Utilities expects to invest $3.6 billion in Regulated Utility and long-term contracted assets which will continue to strengthen our high quality earnings base. Of the $3.6 billion planned spend, $3.5 billion will be on Regulated Utilities.

## FINANCIAL STRENGTH

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

| | | | |
|---|---|---|---|
| **47 year** track record of dividend growth | **86%** regulated earnings | **$3.6B** 3 year capital investment plans | **A** range credit rating |

# ORGANIZATIONAL STRUCTURE




*(1) Regulated businesses include Natural Gas Distribution, Natural Gas Transmission, International Natural Gas Distribution, Electricity Distribution, and Electricity Transmission.*

*(2) CU Inc. includes Natural Gas Distribution, Natural Gas Transmission, Electricity Distribution, and Electricity Transmission.*

*(3) Alberta PowerLine General Partner Ltd. is the general partner of Alberta PowerLine Limited Partnership (Alberta PowerLine or APL), a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent). In June 2019, Canadian Utilities, and Quanta Services Inc., entered into definitive agreements for the sale of APL through a competitive process for total proceeds of approximately $300 million, and the assumption of approximately $1.4 billion of APL debt. The sale transaction is expected to close in the fourth quarter of 2019.*

*(4) Retail Energy, through ATCO Energy Ltd. (ATCOenergy), provides retail, commercial and industrial electricity and natural gas service in Alberta.*

*(5) On September 30, 2019, Canadian Utilities finalized the previously announced sale of its entire Canadian fossil fuel-based electricity generation portfolio for aggregate proceeds of approximately $821 million, subject to customary closing adjustments.*

The unaudited interim consolidated financial statements include the accounts of Canadian Utilities, and its subsidiaries, including the equity investment in joint ventures and a proportionate share of joint operations.

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

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

# PERFORMANCE OVERVIEW

## FINANCIAL METRICS

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

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| *($ millions, except per share data and outstanding shares)* | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| **Key Financial Metrics** | | | | | | |
| Revenues | **885** | 990 | (105) | **2,976** | 3,342 | (366) |
| Adjusted earnings (1) | **106** | 132 | (26) | **432** | 420 | 12 |
| Electricity | **112** | 134 | (22) | **334** | 331 | 3 |
| Pipelines & Liquids | **19** | 17 | 2 | **159** | 145 | 14 |
| Corporate & Other | **(25)** | (19) | (6) | **(63)** | (56) | (7) |
| Intersegment Eliminations | **–** | – | – | **2** | – | 2 |
| Adjusted earnings ($ per share) (1) | **0.39** | 0.49 | (0.10) | **1.58** | 1.55 | 0.03 |
| Earnings attributable to equity owners of the Company | **284** | 202 | 82 | **800** | 378 | 422 |
| Earnings attributable to Class A and Class B shares | **267** | 185 | 82 | **750** | 328 | 422 |
| Earnings attributable to Class A and Class B shares ($ per share) | **0.99** | 0.68 | 0.31 | **2.75** | 1.21 | 1.54 |
| Cash dividends declared per Class A and Class B share (cents per share) | **42.27** | 39.33 | 2.94 | **126.81** | 117.99 | 8.82 |
| Funds generated by operations (1) | **414** | 501 | (87) | **1,355** | 1,322 | 33 |
| Capital investment (1) | **297** | 385 | (88) | **852** | 1,571 | (719) |
| **Other Financial Metrics** | | | | | | |
| Weighted average Class A and Class B shares outstanding *(thousands):* | | | | | | |
| Basic | **272,624** | 271,711 | 913 | **272,621** | 271,204 | 1,417 |
| Diluted | **273,226** | 272,298 | 928 | **273,189** | 271,813 | 1,376 |

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

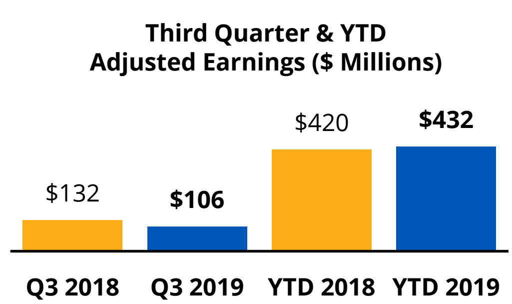
## REVENUES

Revenues for the third quarter of 2019 were $885 million and $2,976 million, $105 million and $366 million lower than the same period in 2018. Lower revenues were mainly due to reduced construction activity on the Alberta PowerLine (APL) Fort McMurray West-500kV project and forgone revenue associated with the Balancing Pool's 2018 termination of the Battle River unit 5 PPA, partially offset by higher flow-through revenues in natural gas distribution for third party franchise and transmission fees.

## ADJUSTED EARNINGS

Adjusted earnings for the third quarter of 2019 were $106 million, or $0.39 per share compared to $132 million or $0.49 per share for the same period in 2018.

Adjusted earnings in the first nine months of 2019 were $432 million, or $1.58 per share, compared to $420 million or $1.55 per share for the same period in 2018.



The primary drivers of adjusted earnings results were as follows:

- Electricity adjusted earnings for the third quarter of 2019 were $22 million lower than the same period in 2018, mainly due to the favorable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA and the associated availability incentive and performance payments, partially offset by the positive impact of the 2018-2019 general tariff application (GTA) decision which was received in the second quarter of 2019.
- Pipeline & Liquids adjusted earnings for the third quarter of 2019 were $2 million higher that the same period in 2018, mainly due to ongoing growth in the regulated rate base and lower income taxes.

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

### EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Earnings attributable to equity owners of the Company were $284 million in the third quarter of 2019, $82 million higher than the same period 2018. Earnings attributable to equity owners of the Company include significant impairments, timing adjustments related to rate-regulated activities, unrealized gains or losses on mark-to-market forward and swap commodity contracts, one-time gains and losses, and items that are not in the normal course of business or a result of day-to-day operations. These items are not included in adjusted earnings.

In the third quarter of 2019, Canadian Utilities closed a series of transactions on the sale of its Canadian fossil fuel-based electricity generation portfolio resulting in a year to date gain on sale of operations of $139 million (after-tax). As the gain is related to a series of one-time transactions, it is excluded from adjusted earnings.

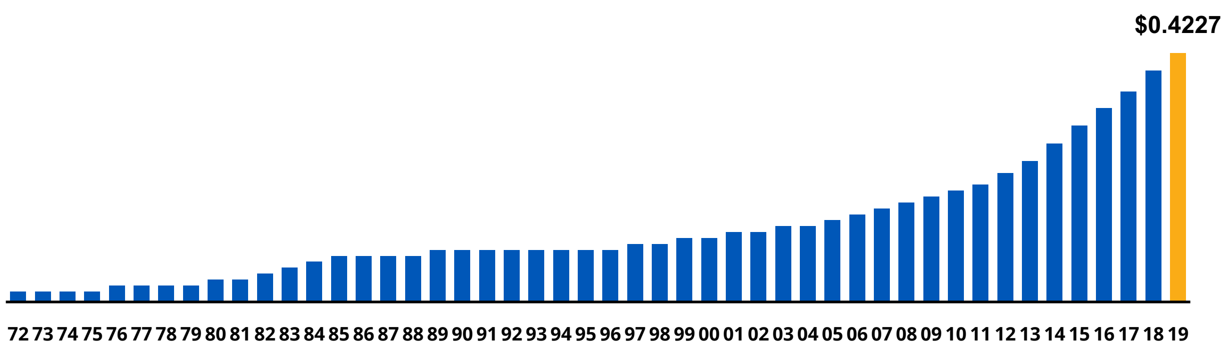
Earnings attributable to equity owners of the Company are earnings attributable to Class A and B shares plus dividends on equity preferred shares of the Company. Additional information regarding earnings attributable to Class A and B shares is presented in Note 7 of the unaudited interim consolidated financial statements. More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Equity Owners of the Company section of this MD&A.

### COMMON SHARE DIVIDENDS

On October 10, 2019, the Board of Directors declared a fourth quarter dividend of 42.27 cents per share. Dividends paid to Class A and Class B share owners totaled $347 million in the first nine months of 2019.

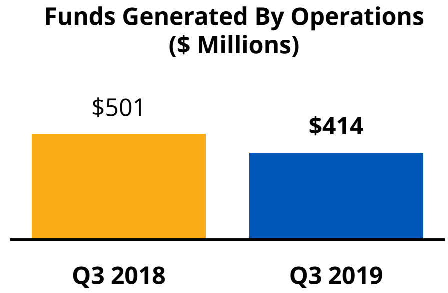
We have increased our common share dividend each year since 1972.

**Quarterly Dividend Rate 1972 - 2019**
**(dollars per share)**



## FUNDS GENERATED BY OPERATIONS

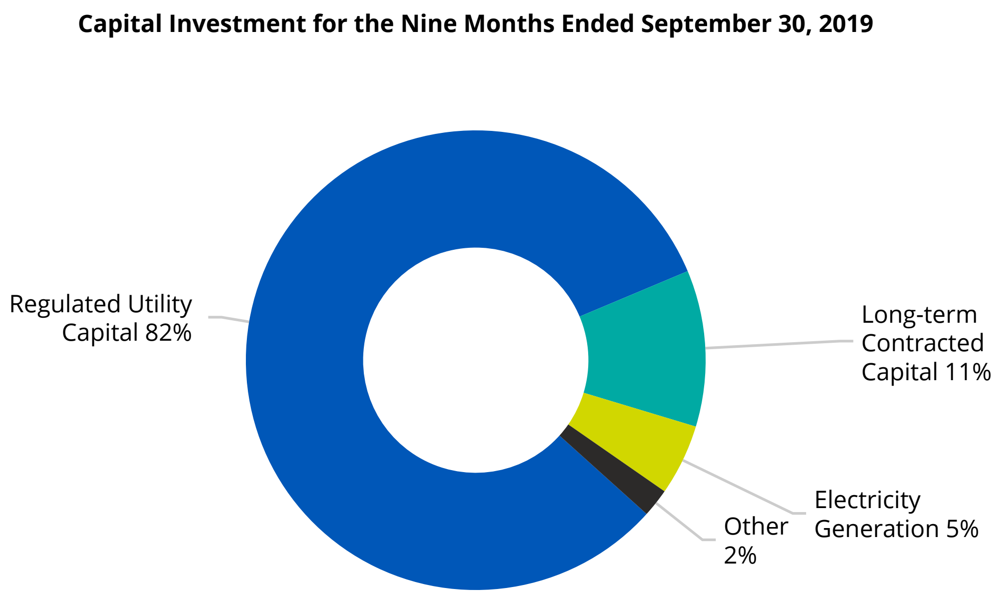
Funds generated by operations were $414 million for the third quarter of 2019, $87 million lower than the same period in 2018 mainly due to the higher earnings received in the third quarter of 2018 from the termination of the Battle River unit 5 PPA.




## CAPITAL INVESTMENT

Total capital investment in the third quarter of 2019 was $297 million. Of this capital invested, $268 million was invested in Regulated Utilities. These investments earn a return under a regulated business model. The remaining $29 million invested in the third quarter of 2019 included planned capital maintenance in the electricity generation fleet.

Total capital investment in the first nine months of 2019 was $852 million. Of this capital invested, $695 million was invested in Regulated Utilities, and $95 million was invested in long-term contracted assets including Alberta PowerLine. These investments earn a return under a regulated business model or are commercially secured long-term contracts. The remaining $62 million invested in the first nine months of 2019 included planned capital maintenance in the electricity generation fleet.



# GLOBAL BUSINESS UNIT PERFORMANCE


**REVENUES**

Electricity revenues of $530 million in the third quarter, and $1,736 million in the first nine months of 2019, were $158 million and $485 million lower than the same periods in 2018, mainly due to the reduced construction activity for APL and forgone revenue associated with the Balancing Pool's 2018 termination of the Battle River unit 5 PPA.

**ELECTRICITY ADJUSTED EARNINGS**

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| *($ millions)* | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| **Regulated Electricity** | | | | | | |
| Electricity Distribution | **26** | 26 | – | **95** | 86 | 9 |
| Electricity Transmission | **47** | 44 | 3 | **151** | 134 | 17 |
| Total Regulated Electricity Adjusted Earnings | **73** | 70 | 3 | **246** | 220 | 26 |
| **Non-regulated Electricity** | | | | | | |
| Independent Power Plants | **21** | 8 | 13 | **31** | 6 | 25 |
| Thermal PPA Plants | **13** | 50 | (37) | **28** | 77 | (49) |
| International Electricity Generation | **1** | 2 | (1) | **7** | 9 | (2) |
| Alberta PowerLine | **4** | 4 | – | **22** | 19 | 3 |
| Total Non-regulated Electricity Adjusted Earnings | **39** | 64 | (25) | **88** | 111 | (23) |
| Total Electricity Adjusted Earnings | **112** | 134 | (22) | **334** | 331 | 3 |

Electricity earnings of $112 million were $22 million lower than the same period in 2018. Lower earnings were mainly due to favorable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA and associated availability incentive and performance payments. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 GTA decision which was received in the second quarter of 2019, cost efficiencies, lower income taxes, and improved realized forward sales in Independent Power Plants.

Electricity earnings of $334 million in the first nine months of 2019 were $3 million higher than the same period in 2018. Higher earnings were mainly due to the impact of the 2018-2019 GTA decision received in July 2019 which approved higher rates for 2019, continued growth in the regulated electricity rate base, overall cost efficiencies and lower income taxes, offset by earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA and associated availability incentive and performance payments.

## REGULATED ELECTRICITY

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

### Electricity Distribution

In the third quarter of 2019, electricity distribution adjusted earnings of $26 million were comparable to the same period in 2018.

In the first nine months of 2019, electricity distribution adjusted earnings of $95 million were $9 million higher than the same period in 2018. Higher earnings were mainly due to continued growth in the rate base, cost efficiencies and lower income taxes.

### Electricity Transmission

Electricity transmission recorded adjusted earnings of $47 million in the third quarter of 2019 and $151 million in the first nine months of 2019, $3 million and $17 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the impact of the 2018-2019 GTA decision received in July 2019 which approved higher rates for 2019.

## NON-REGULATED ELECTRICITY

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

### Generating Plant Availability

Electricity generating availability for the third quarter and first nine months of 2019 and 2018 is shown in the table below. Generating plant capacity fluctuates with the timing and duration of outages.

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change | 2019 | 2018 | Change |
| Independent Power Plants | **96%** | 96% | – | **94%** | 93% | 1% |
| Thermal PPA Plants | **98%** | 96% | 2% | **97%** | 95% | 2% |
| International Electricity Generation | **98%** | 100% | (2%) | **96%** | 99% | (3%) |

Availability in our Independent Power Plants in the third quarter of 2019 and first nine months of 2019 was comparable to the same periods in 2018.

Higher availability in our Thermal PPA plants in the third quarter and first nine months of 2019 was primarily due to fewer planned outages. In the first quarter of 2018, a planned minor outage was completed at the Battle River unit 5 plant. Effective January 1, 2019, Battle River unit 5 is categorized under Independent Power Plants.

Availability in our International Electricity Generation Plants in the third quarter and first nine months of 2019 was lower than the same periods in 2018 mainly due to planned maintenance outages at the Osborne power plant in the second and third quarters of 2019.

### Alberta Power Market Summary

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the third quarter and first nine months of 2019 and 2018 are shown in the table below.

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| Average Alberta Power Pool electricity price *($/MWh)* | **46.89** | 55.65 | (8.76) | **57.59** | 48.60 | 8.99 |
| Average natural gas price *($/GJ)* | **0.87** | 1.10 | (0.23) | **1.43** | 1.42 | 0.01 |
| Average market spark spread ($/*MWh*) | **40.39** | 47.44 | (7.05) | **46.87** | 37.97 | 8.90 |

The average Alberta Power Pool electricity price and spark spread for the third quarter of 2019 dropped by $8.76 and $7.05 compared to the same period in 2018 due to decreased demand from low summer temperatures.

The average Alberta Power Pool electricity price for the first nine months of 2019 increased by $8.99 from the same period in 2018. This price increase was driven by higher pool prices in the first quarter as a result of increased demand from record low winter temperatures, coal unit outages, record low wind capacity factors, and volatile export prices impacting tie line flows. The spark spread in the first nine months of 2019 increased by $8.90 compared to the same period in 2018 due to higher pool prices.

***Realized Forward Sales Program***

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| Average volumes settled *(MW)* | **425** | 358 | 67 | **389** | 289 | 100 |
| Average realized spark spread *($/MWh)* | **26.96** | 19.02 | 7.94 | **27.46** | 17.79 | 9.67 |

In the third quarter of 2019, Independent Power Plants sold forward 425 MW of power that settled at an average realized spark spread of $26.96 per MWh compared to 358 MW sold forward that settled at an average of $19.02 per MWh in the third quarter of 2018. Forward sales in the third quarter of 2019 resulted in higher realized earnings for this program compared to the same period in 2018. This was due to a higher locked-in spread in the third quarter of 2019 compared to the third quarter of 2018.

In the first nine months of 2019, Independent Power Plants sold forward 389 MW of power that settled at an average realized spark spread of $27.46 per MWh compared to 289 MW sold forward that settled at an average of $17.79 per MWh during the same period of 2018. Forward sales in the first nine months of 2019 resulted in lower realized earnings for this program compared to the same period in 2018.

**Independent Power Plants**

Independent Power Plants recorded adjusted earnings of $21 million in the third quarter of 2019, $13 million higher than the same period in 2018. Higher earnings were mainly due to cost efficiencies and improved realized forward sales.

Independent Power Plants recorded adjusted earnings of $31 million in the first nine months of 2019, $25 million higher compared to the same period in 2018. Higher earnings were mainly due to increased market prices and cost efficiencies, partially offset by higher maintenance costs.

**Thermal PPA Plants**

The electricity generated by the Sheerness units, and by Battle River unit 5 until September 30, 2018, is sold through PPAs. Under the PPAs, generating capacity for each generating unit must be made available to the PPA purchaser of that unit. These arrangements entitle us to recover forecast fixed and variable costs from the PPA purchaser. An operations and maintenance margin is included on these fixed and variable costs and is recognized over the term of the PPAs. Under the terms of the PPAs, counterparties are also subject to an incentive related to the generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets.

Thermal Power Plants recorded adjusted earnings of $13 million in the third quarter of 2019 and $28 million in the first nine months of 2019, $37 million and $49 million lower compared to the same periods in 2018. Lower earnings were mainly due to favorable earnings realized in 2018 associated with the Balancing Pool's termination of the

Battle River unit 5 PPA and the Battle River unit 5 earnings being categorized under Independent Power Plants effective January 1, 2019.

### International Electricity Generation

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

International electricity generation adjusted earnings of $1 million and $7 million in the third quarter and first nine months of 2019 were $1 million and $2 million lower than the same time periods in 2018. Lower earnings were mainly due to the impact of the new Osborne Power Purchase Agreement which came into effect in December 2018.

### Alberta PowerLine

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

APL's adjusted earnings of $4 million in the third quarter of 2019, were comparable to the same period in 2018.

APL's adjusted earnings of $22 million in the first nine months of 2019 were $3 million higher than the same period in 2018. Higher earnings were mainly due to lower income taxes from lower Alberta corporate income tax rates, and higher service concession arrangement interest income, partially offset by lower earnings from the completion of construction activity in the first quarter of 2019.

## ELECTRICITY RECENT DEVELOPMENTS

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

In the third quarter of 2019, Canadian Utilities finalized the sale of its entire 2,100-MW Canadian fossil fuel-based electricity generation portfolio in a series of transactions. In September, Canadian Utilities sold 10 partly- or fully-owned natural gas-fired and coal-fired electricity generation assets in Alberta and BC to Heartland Generation Ltd., an affiliate of Energy Capital Partners. In August, Canadian Utilities sold its 50 per cent ownership interest in the 580-MW Brighton Beach joint venture, located in Windsor, Ont., to Ontario Power Generation Inc. In July, Canadian Utilities completed the sale of its 50 per cent ownership interest in the 260-MW Cory Cogeneration Station to SaskPower International.

Canadian Utilities received $821 million of aggregate proceeds on the sale and recognized a year to date gain on sale of $139 million (after-tax), which is excluded from adjusted earnings. The purchase price is subject to customary closing adjustments that could result in a change in the cash proceeds and the gain recognized.

Following the close of the transaction, Canadian Utilities continues to own 244 MW of electricity generation assets in Canada, Mexico and Australia that are 90 per cent contracted with a weighted average contract term of 9 years.

### Alberta PowerLine

In March 2019, the 500-km, Fort McMurray West 500-Kv Transmission Line, owned by Alberta PowerLine Limited Partnership (APL), was energized ahead of schedule, on-budget and with an impeccable safety record.

On June 24, 2019, Canadian Utilities and Quanta Services Inc. entered into definitive agreements for the sale of 100 per cent of their interest in APL through a competitive process for total proceeds of approximately $300 million, and the assumption of approximately $1.4 billion of APL debt. As part of these agreements, Canadian Utilities offered an opportunity for certain Indigenous communities along the transmission line route to obtain up to a 40 per cent equity interest in APL.

On September 23, 2019, Canadian Utilities confirmed that seven Indigenous communities had entered into definitive agreements to purchase a combined 40 per cent ownership in APL. The remaining 60 per cent of APL will be owned by an investment consortium.

Canadian Utilities will remain as the operator of APL over its 35-year contract with the AESO.

The sale is expected to close in the fourth quarter of 2019, subject to receipt of regulatory and bondholder approvals, and satisfaction of other customary closing conditions.


**REVENUES**

Pipelines & Liquids revenues of $334 million in the third quarter of 2019, and $1,166 million in the first nine months of 2019, were $47 million and $79 million higher than the same periods in 2018. Higher revenues were mainly due to higher flow-through revenues in natural gas distribution for third party franchise and transmission fees, and growth in the regulated rate base.

**PIPELINES & LIQUIDS ADJUSTED EARNINGS**

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| *($ millions)* | 2019 | 2018 | Change | 2019 | 2018 | Change |
| **Regulated Pipelines & Liquids** | | | | | | |
| Natural Gas Distribution | **(18)** | (17) | (1) | **57** | 46 | 11 |
| Natural Gas Transmission | **19** | 17 | 2 | **57** | 53 | 4 |
| International Natural Gas Distribution | **17** | 15 | 2 | **39** | 43 | (4) |
| Total Regulated Pipelines & Liquids Adjusted Earnings | **18** | 15 | 3 | **153** | 142 | 11 |
| **Non-regulated Pipelines & Liquids** | | | | | | |
| Storage & Industrial Water | **1** | 2 | (1) | **6** | 3 | 3 |
| Total Pipelines & Liquids Adjusted Earnings | **19** | 17 | 2 | **159** | 145 | 14 |

Pipelines & Liquids recorded adjusted earnings of $19 million in the the third quarter of 2019, $2 million higher than the same period in 2018. Higher earnings were mainly due to ongoing growth in the regulated rate base and lower income taxes.

Pipelines & Liquids recorded adjusted earnings of $159 million in the first nine months of 2019, $14 million higher than the same period in 2018. Higher earnings were mainly due to ongoing growth in the regulated rate base, incremental earnings from hydrocarbon storage, cost efficiencies, and lower income taxes.

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

**REGULATED PIPELINES & LIQUIDS**

**Natural Gas Distribution**

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

Natural gas distribution recorded a loss of $18 million in the third quarter of 2019, $1 million lower than the same period in 2018, mainly due to timing of operations and maintenance costs, offset by growth in the rate base.

Natural gas distribution recorded adjusted earnings of $57 million in the first nine months of 2019, $11 million higher than the same period in 2018, mainly due to ongoing growth in the rate base and customers, cost efficiencies and lower income taxes.

### Natural Gas Transmission

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

Natural gas transmission recorded adjusted earnings of $19 million in the third quarter of 2019 and $57 million in the first nine months of 2019, $2 million and $4 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to continued growth in the rate base and lower income taxes.

### International Natural Gas Distribution

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

In the third quarter of 2019, international natural gas distribution adjusted earnings of $17 million were $2 million higher than the same period in 2018. Higher earnings were mainly due to rate base growth.

The international natural gas distribution business recorded adjusted earnings of $39 million in the first nine months of 2019, $4 million lower than the same period in 2018, mainly due to a difference between inflation rates in the first quarters of 2018 and 2019. Earnings adjustments are made for the inflation rate published by the Australian Bureau of Statistics. The published inflation rate for the first quarter of 2019, when applied to the rate of return calculations, produced a reduction to the revenues and earnings in the first nine months of 2019.

## NON-REGULATED PIPELINES & LIQUIDS

### Storage & Industrial Water

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

The storage & industrial water business recorded adjusted earnings of $1 million in the third quarter of 2019, $1 million lower than the same period in 2018 mainly due to lower demand and pricing for natural gas storage services.

The storage & industrial water business recorded adjusted earnings of $6 million in the first nine months of 2019, $3 million higher than the same period in 2018. Higher earnings were mainly due to incremental earnings from two additional hydrocarbon storage caverns that became operational in the second quarter of 2018 and lower income taxes from lower Alberta corporate income tax rates, partially offset by lower demand and pricing for natural gas storage services.

## PIPELINES & LIQUIDS RECENT DEVELOPMENTS

### Pembina-Keephills Transmission Pipeline

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

# CORPORATE & OTHER

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

Including intersegment eliminations, Canadian Utilities Corporate & Other adjusted earnings in the third quarter and first nine months of 2019 were $6 million and $5 million lower compared to the same periods in 2018 mainly due to timing of certain other expenses.

# REGULATORY DEVELOPMENTS

### ATCO ELECTRIC RECOVERY OF 2016 REGIONAL MUNICIPALITY OF WOOD BUFFALO WILDFIRE COSTS

In October 2019, the AUC issued two decisions associated with ATCO Electric's application for the recovery of costs related to the 2016 Regional Municipality of Wood Buffalo wildfire. Electricity transmission's applied-for cost recoveries were all substantially approved as part of the ATCO Electric Transmission 2018-2019 GTA. Approximately 90 per cent of the applied-for cost recoveries were approved in ATCO Electric Distribution's Z Factor application. The capital cost to replace the destroyed assets was approved as filed as were the majority of the operating and maintenance costs and recovery for lost revenues. However, the value of electricity distribution's destroyed assets were deemed to be an extraordinary retirement and were not approved for recovery in customer rates, resulting in a reduction of electricity distribution adjusted earnings of $2 million after-tax.

### ATCO ELECTRIC TRANSMISSION 2020-2022 GTA

On October 3, 2019, ATCO Electric Transmission filed a GTA for its operations for 2020, 2021, and 2022. The application requests, among other things, additional revenues to recover higher depreciation costs. The application also requests, at ATCO Electric Transmission's discretion, the ability to advance an application to establish 2023 and 2024 revenue requirements by escalating the 2022 approved revenue requirement. A decision from the AUC is expected by the fourth quarter of 2020.

### ATCO ELECTRIC DISTRIBUTION DEPRECIATION PROCEEDING

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

### ATCO GAS AUSTRALIA ACCESS ARRANGEMENT (2020-2024)

International natural gas distribution received the draft decision related to its five-year Access Arrangement 5 (AA5) application from the Economic Regulation Authority (ERA) on April 18, 2019. The ERA also published its final rate of return guidelines which outline the parameters for the weighted average cost of capital (WACC) applicable to AA5. The AA5 WACC calculation was completed using a 20-business day period of observation in September 2019 to determine the risk free rate portion of the WACC calculation prior to the final decision. The WACC also determines the regulated return on equity (ROE) for ATCO Gas Australia. The AA5 ROE is expected to be 5.02 per cent compared to 7.21 per cent in the previous Access Arrangement.

The final decision from the ERA on AA5 is expected in the fourth quarter of 2019. The tariffs included in the final decision will be applicable for the period January 1, 2020 to December 31, 2024. A further reduction to achieved ROE is expected to arise from the rebasing of operating costs, the approved capital expenditure program, and the forecast of demand and throughput.

# SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

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

## SUSTAINABILITY REPORTING

ATCO's annual Sustainability Report, published in June 2019, focuses on material topics including:

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

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

The 2018 Sustainability Report, Sustainability Framework Reference Document, and other disclosures are available on our website, at www.canadianutilities.com.

## CLIMATE CHANGE AND ENERGY TRANSITION

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

In 2018, Canadian Utilities installed three electric vehicle (EV) charging stations between Calgary and Edmonton, Alberta providing end-users an opportunity to replace liquid fuel with a low-carbon emitting energy. In 2019, Canadian Utilities has continued to expand its number of EV direct current, fast charging stations. In addition to the Canmore location energized in the second quarter of 2018, three more EV fast charging stations were energized in the third quarter of 2019, two more have been energized in October 2019, and 14 additional EV fast charging stations are planned for installation through the remainder of 2019 and 2020.

In the third quarter of 2019, Canadian Utilities completed the sale of 2,100 MWs of its Canadian fossil fuel-based electricity generation in a series of transactions. These sale transactions remove coal-fired electricity generation assets from Canadian Utilities' asset portfolio and significantly reduce overall greenhouse gas emissions as of October 1, 2019.

# OTHER EXPENSES AND INCOME

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

| | | Three Months Ended September 30 | | | Nine Months Ended September 30 | |
|---|---|---|---|---|---|---|
| *($ millions)* | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| Operating costs | **455** | 404 | 51 | **1,478** | 1,444 | 34 |
| Service concession arrangement costs | **15** | 104 | (89) | **118** | 620 | (502) |
| Depreciation and amortization | **117** | 158 | (41) | **428** | 491 | (63) |
| Proceeds from termination of Power Purchase Arrangement | **–** | 62 | (62) | **–** | 62 | (62) |
| Gain on sale of operation | **163** | – | 163 | **153** | – | 153 |
| Earnings from investment in joint ventures | **3** | 7 | (4) | **15** | 19 | (4) |
| Net finance costs | **116** | 115 | 1 | **350** | 344 | 6 |
| Income taxes | **62** | 74 | (12) | **(35)** | 141 | (176) |

### OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation and amortization, increased by $51 million and $34 million in the third quarter and first nine months of 2019 when compared to the same periods in 2018. Higher operating costs were mainly due to lower unrealized gains on mark-to-market forward commodity contracts in Independent Power Plants.

### SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs are recorded for third party construction and operation activities for the Fort McMurray West-500kV Project. Service concession arrangement costs in the third quarter and first nine months of 2019 were $89 million and $502 million lower compared to the same periods in 2018, mainly due to the completion of APL construction activities in March 2019. The project was energized on March 28, 2019. With the commencement of operations in the second quarter of 2019, costs incurred in the third quarter primarily relate to operating and maintenance activities.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense decreased by $41 million and $63 million in the third quarter and first nine months of 2019 when compared to the same periods in 2018. The lower depreciation is mainly due to an electricity distribution depreciation rate change in the third quarter of 2019 that extends the overall depreciable life of the electricity distribution assets, and the ceasing of depreciation of Canadian fossil fuel-based electricity generation assets that were classified as held for sale in the second quarter of 2019 and sold in the third quarter of 2019. In 2018, depreciation and amortization expense included costs related to decisions to discontinue certain projects that no longer represented long-term strategic value to the Company.

### PROCEEDS FROM TERMINATION OF PURCHASE POWER ARRANGEMENT

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

### GAIN ON SALE OF OPERATIONS

In the third quarter of 2019, the Company closed a series of transactions on the sale of its Canadian fossil fuel-based electricity generation portfolio resulting in a year-to-date gain on sale of operations of $153 million. This gain on sale includes $10 million of transaction costs recognized in previous quarters.

### EARNINGS FROM INVESTMENT IN JOINT VENTURES

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

Earnings decreased by $4 million in the third quarter and first nine months of 2019 compared to the same periods in 2018 due to the impact of the new PPA and deferral of variable operating and maintenance revenue related to the Osborne Power Station.

### NET FINANCE COSTS

Net finance costs increased by $1 million and $6 million in the third quarter and first nine months of 2019 when compared to the same periods in 2018, mainly due to lower interest income on APL cash balances and interest expense associated with the incremental debt issued to fund the ongoing capital investment program in Canadian Utilities' Regulated Utilities.

### INCOME TAXES

Income taxes decreased by $12 million in the third quarter and $176 million in the first nine months of 2019 when compared to the same periods in 2018 mainly due to lower corporate income tax rates enacted by the Government of Alberta in June 2019, partially offset by higher earnings before income taxes. In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent over four years, commencing with a one per cent decrease on July 1, 2019, followed by one per cent reductions on January 1 of each of the next three years.

# LIQUIDITY AND CAPITAL RESOURCES

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

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

### CREDIT RATINGS

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

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

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

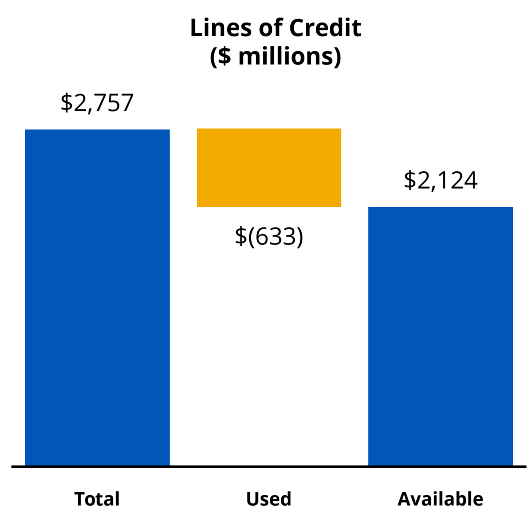
### LINES OF CREDIT

At September 30, 2019, Canadian Utilities and its subsidiaries had the following lines of credit.

| *($ millions)* | Total | Used | Available |
|---|---|---|---|
| Long-term committed | **2,204** | 362 | 1,842 |
| Uncommitted | **553** | 271 | 282 |
| Total | **2,757** | 633 | 2,124 |

Of the $2,757 million in total credit lines, $553 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,204 million in credit lines was committed, with maturities between 2020 and 2023, and may be extended at the option of the lenders.

Of the $633 million credit line usage, $359 million was related to ATCO Gas Australia Pty Ltd. with the majority of the remaining usage pertaining to the issuance of letters of credit. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia Pty Ltd.'s term debt financing needs.



## CONSOLIDATED CASH FLOW

At September 30, 2019, the Company's cash position was $903 million, an increase of $304 million compared to December 31, 2018. The increase was mainly due to the proceeds received on the sale of Canadian Utilities' Canadian fossil fuel-based electricity generation portfolio and increased earnings, partially offset by higher dividends paid.

### Funds Generated by Operations

Funds generated by operations were $414 million in the third quarter of 2019, $87 million lower than the same period in 2018 mainly due to the higher cash earnings received in the third quarter of 2018 from the termination of the Battle River unit 5 PPA.

Funds generated by operations were $1,355 million in the first nine months of 2019, $33 million higher compared to the same period in 2018. The increase was mainly due to higher earnings, the 2018 impact of a refund of customer deferral accounts in electricity transmission and a refund of over collected transmission costs in natural gas distribution, partially offset by higher earnings received in 2018 from the termination of the Battle River unit 5 PPA.

### Cash Used for Capital Investment

Cash used for capital investment was $297 million in the third quarter of 2019, $88 million lower than the same period in 2018. Lower capital spending was mainly due to the completion of construction activities in Alberta PowerLine.

Cash used for capital investment was $852 million in the first nine months of 2019, $719 million lower than the same period in 2018. Lower capital investment was mainly due to lower planned capital investment in Alberta PowerLine, and lower capital spend activity within the Regulated Utilities. Electricity generation capital investment in 2018 included the acquisition of the Mexico hydroelectric facility.

Capital investment in the third quarter and first nine months of 2019 and 2018 is shown in the table below.

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| *($ millions)* | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| **Electricity** | | | | | | |
| Electricity Distribution | **63** | 58 | 5 | **151** | 164 | (13) |
| Electricity Transmission | **32** | 39 | (7) | **139** | 159 | (20) |
| Electricity Generation | **22** | 9 | 13 | **47** | 141 | (94) |
| Alberta PowerLine | **–** | 104 | (104) | **95** | 620 | (525) |
| **Total Electricity** | **117** | 210 | (93) | **432** | 1,084 | (652) |
| **Pipelines & Liquids** | | | | | | |
| Natural Gas Distribution | **88** | 75 | 13 | **192** | 210 | (18) |
| Natural Gas Transmission | **69** | 63 | 6 | **163** | 174 | (11) |
| International Natural Gas Distribution | **16** | 24 | (8) | **50** | 69 | (19) |
| International Natural Gas Transmission and Storage & Industrial Water | **6** | 7 | (1) | **12** | 21 | (9) |
| **Total Pipelines & Liquids** | **179** | 169 | 10 | **417** | 474 | (57) |
| **Corporate & Other** | **1** | 6 | (5) | **3** | 13 | (10) |
| **Canadian Utilities Total (1) (2)** | **297** | 385 | (88) | **852** | 1,571 | (719) |

*(1) Includes capital expenditures in joint ventures of $2 million and $2 million (2018 - $7 million and $15 million) for the third quarter and first nine months of 2019.*

*(2) Includes additions to property, plant and equipment, intangibles and $5 million and $14 million (2018 - $6 million and $16 million) of interest capitalized during construction for the third quarter and first nine months of 2019.*

**Base Shelf Prospectuses**

***CU Inc. Debentures***

On June 11, 2018, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of October 30, 2019, aggregate issuances of debentures were $965 million.

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

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

**Dividends and Common Shares**

We have increased our common share dividend each year since 1972, a 47-year track record. Dividends paid to Class A and Class B share owners totaled $116 million in the third quarter and $347 million in the first nine months of 2019.

On October 10, 2019, the Board of Directors declared a fourth quarter dividend of 42.27 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on our financial condition and other factors.

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

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

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

# SHARE CAPITAL

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

At October 29, 2019, we had outstanding 199,515,081 Class A shares, 73,720,244 Class B shares, and options to purchase 690,250 Class A shares.

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

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

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

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

Of the 12,800,000 Class A shares authorized for grant of options under our stock option plan, 5,159,000 Class A shares were available for issuance at September 30, 2019. Options may be granted to officers and key employees of the Company and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

# QUARTERLY INFORMATION

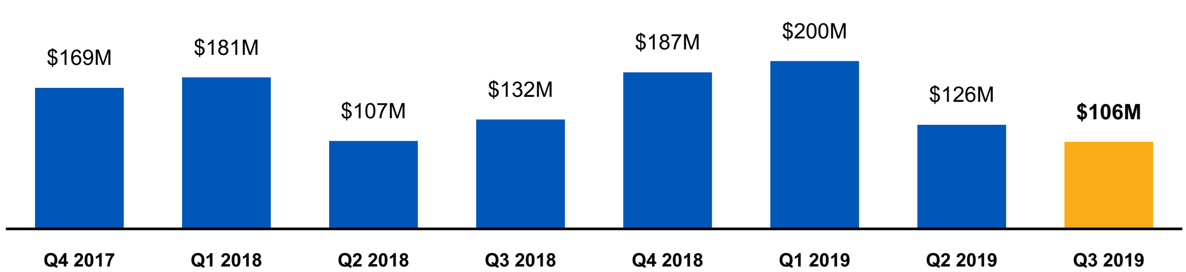
The following table shows financial information for the eight quarters ended December 31, 2017 through September 30, 2019.

| *($ millions, except for per share data)* | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 |
|---|---|---|---|---|
| Revenues | 1,035 | 1,189 | 902 | **885** |
| Earnings attributable to equity owners of the Company | 256 | 217 | 299 | **284** |
| Earnings attributable to Class A and B shares | 239 | 200 | 283 | **267** |
| Earnings per Class A and Class B share *($)* | 0.87 | 0.73 | 1.03 | **0.99** |
| Diluted earnings per Class A and Class B share *($)* | 0.87 | 0.73 | 1.03 | **0.99** |
| Adjusted earnings per Class A and Class B share *($)* | 0.69 | 0.73 | 0.46 | **0.39** |
| Adjusted earnings | | | | |
| Electricity | 103 | 116 | 106 | **112** |
| Pipelines & Liquids | 102 | 98 | 42 | **19** |
| Corporate & Other and Intersegment Eliminations | (18) | (14) | (22) | **(25)** |
| Total adjusted earnings | 187 | 200 | 126 | **106** |
| *($ millions, except for per share data)* | **Q4 2017 (1)** | **Q1 2018** | **Q2 2018** | **Q3 2018** |
| Revenues | 1,208 | 1,385 | 967 | 990 |
| Earnings (loss) attributable to equity owners of the Company | 102 | 179 | (3) | 202 |
| Earnings (loss) attributable to Class A and Class B shares | 85 | 162 | (19) | 185 |
| Earnings (loss) per Class A and Class B share *($)* | 0.32 | 0.60 | (0.07) | 0.68 |
| Diluted earnings (loss) per Class A and Class B share *($)* | 0.32 | 0.60 | (0.07) | 0.68 |
| Adjusted earnings per Class A and Class B share *($)* | 0.63 | 0.67 | 0.39 | 0.49 |
| Adjusted earnings | | | | |
| Electricity | 95 | 97 | 100 | 134 |
| Pipelines & Liquids | 94 | 101 | 27 | 17 |
| Corporate & Other and Intersegment Eliminations | (20) | (17) | (20) | (19) |
| Total adjusted earnings | 169 | 181 | 107 | 132 |

*(1) These numbers have been restated to account for the impact of IFRS 15 adopted on January 1, 2018.*

**ADJUSTED EARNINGS**

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



**ELECTRICITY**

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

Fourth quarter 2017 earnings were impacted by lower contributions in the electricity generation business from forward sales and increased business development expenses.

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

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

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

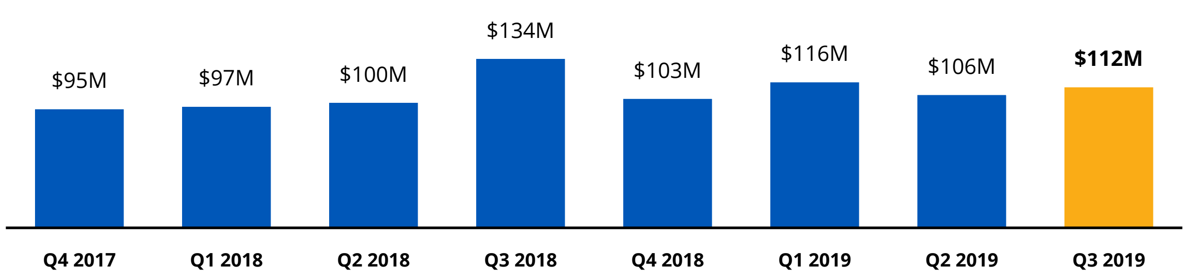
In the third quarter of 2018, earnings increased compared to the third quarter of 2017 mainly due to the completion of performance obligations and additional availability incentive earnings which resulted from the Battle River unit 5 PPA termination, and improved market conditions for Independent Power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

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

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

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

In the third quarter of 2019, lower earnings compared to the third quarter of 2018 were mainly due to favorable earnings realized in 2018 associated with the Balancing Pool's termination of the Battle River unit 5 PPA and associated availability incentive and performance payments. Lower earnings were partially offset by the positive impact of the electricity transmission 2018-2019 GTA decision which was received in the second quarter of 2019, cost efficiencies, lower income taxes, and improved realized forward sales in Independent Power Plants.




**PIPELINES & LIQUIDS**

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

Higher earnings in the fourth quarter of 2017 were mainly a result of rate base growth across Pipelines & Liquids' regulated utilities.

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

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

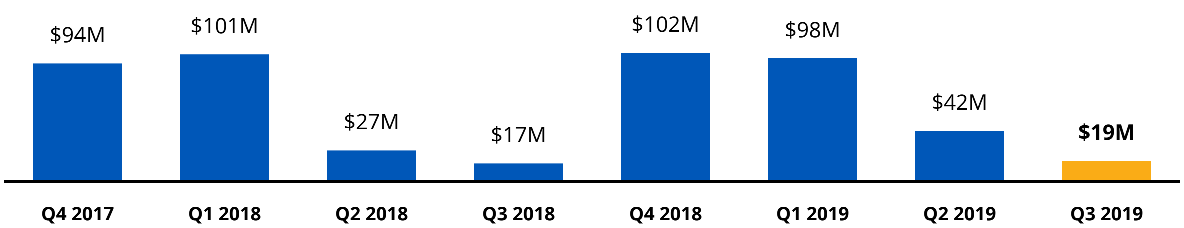
In the second and third quarters of 2018, lower earnings compared to the same periods in 2017 were mainly due to lower seasonal demand and the impact of rate rebasing under Alberta's regulated model in natural gas distribution, partially offset by growth in rate base across our Regulated Pipelines &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

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

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

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

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




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

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

- In the fourth quarter of 2017, Structures & Logistics recognized an impairment relating to workforce housing assets in Canada and space rental assets in the U.S. Structures & Logistics determined these assets were impaired due to a reduction in utilization, sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key customers. The Company's 24.5 per cent share of the impairment decreased equity earnings by $7 million in the Corporate & Other segment.
- In the fourth quarter of 2017, the Company recorded an increase to earnings of $31 million on derecognition of customer contributions related to a sale of electricity generation assets on transitioning to finance lease accounting which resulted from the implementation of IFRS 15.
- In the second quarter of 2018, restructuring and other costs not in the normal course of business of $60 million were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.
- In the third quarter of 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a payment from the Balancing Pool and also recorded additional coal-related costs and Asset Retirement Obligations associated with the Battle River generating facility. This one-time receipt and costs in the net amount of $36 million was excluded from adjusted earnings.
- In the fourth quarter of 2018, Canadian Utilities sold its 100 per cent ownership interest in Barking Power assets. A gain in the amount of $87 million was excluded from adjusted earnings.

- In the second quarter of 2019, Canadian Utilities recorded transaction costs of $8 million for the pending sale of the Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine Limited Partnership. These costs are related to one-time transactions and are therefore excluded from adjusted earnings.
- In the third quarter of 2019, Canadian Utilities closed a series of transactions on the sale of its Canadian fossil fuel-based electricity generation portfolio resulting in a gain on sale of operations of $146 million, after-tax.

# NON-GAAP AND ADDITIONAL GAAP MEASURES

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

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

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

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

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

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

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

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

*($ millions)* — **Three Months Ended September 30**

| **2019**<br>**2018** | **Electricity** | **Pipelines & Liquids** | **Corporate & Other** | **Intersegment Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| Revenues | **530** | **334** | **41** | **(20)** | **885** |
| | 688 | 287 | 36 | (21) | 990 |
| Adjusted earnings (loss) | **112** | **19** | **(25)** | **–** | **106** |
| | 134 | 17 | (19) | – | 132 |
| Gain on sale of operations | **146** | **–** | **–** | **–** | **146** |
| | – | – | – | – | – |
| Transaction costs | **(1)** | **–** | **–** | **–** | **(1)** |
| | – | – | – | – | – |
| Proceeds from Termination of PPA | **–** | **–** | **–** | **–** | **–** |
| | 36 | – | – | – | 36 |
| Unrealized (losses) gains on mark-to-market forward and swap commodity contracts | **(15)** | **–** | **15** | **–** | **–** |
| | 35 | – | – | – | 35 |
| Rate-regulated activities | **9** | **7** | **–** | **4** | **20** |
| | (3) | (17) | – | 1 | (19) |
| IT Common Matters decision | **(2)** | **(1)** | **–** | **–** | **(3)** |
| | – | – | – | – | – |
| Dividends on equity preferred shares of Canadian Utilities Limited | **–** | **–** | **17** | **–** | **17** |
| | 1 | 1 | 15 | – | 17 |
| Other | **–** | **(1)** | **–** | **–** | **(1)** |
| | – | 1 | – | – | 1 |
| Earnings (loss) attributable to equity owners of the Company | **249** | **24** | **7** | **4** | **284** |
| | 203 | 2 | (4) | 1 | 202 |

| ($ millions) | | | | | Nine Months Ended September 30 |
|---|---|---|---|---|---|
| **2019**<br>**2018** | **Electricity** | **Pipelines & Liquids** | **Corporate & Other** | **Intersegment Eliminations** | **Consolidated** |
| Revenues | **1,736** | **1,166** | **159** | **(85)** | **2,976** |
| | 2,221 | 1,087 | 112 | (78) | 3,342 |
| Adjusted earnings (loss) | **334** | **159** | **(63)** | **2** | **432** |
| | 331 | 145 | (56) | – | 420 |
| Gain on sale of operations | **139** | – | – | – | **139** |
| | – | – | – | – | – |
| Transaction costs | **(2)** | – | – | – | **(2)** |
| | – | – | – | – | – |
| Proceed from Termination of PPA | – | – | – | – | – |
| | 36 | – | – | – | 36 |
| Restructuring and other costs | – | – | – | – | – |
| | (36) | (19) | (5) | – | (60) |
| Unrealized (losses) gains on mark-to-market forward and swap commodity contracts | **(14)** | – | **15** | – | **1** |
| | 29 | – | – | – | 29 |
| Rate-regulated activities | **126** | **70** | – | **1** | **197** |
| | (69) | (30) | – | 3 | (96) |
| IT Common Matter decision | **(9)** | **(8)** | – | – | **(17)** |
| | – | – | – | – | – |
| Dividends on equity preferred shares of Canadian Utilities Limited | **2** | **2** | **46** | – | **50** |
| | 3 | 1 | 46 | – | 50 |
| Other | – | – | – | – | – |
| | – | (1) | – | – | (1) |
| Earnings (loss) attributable to equity owners of the Company | **576** | **223** | **(2)** | **3** | **800** |
| | 294 | 96 | (15) | 3 | 378 |

### GAIN ON SALE OF OPERATIONS

In the third quarter of 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio resulting in a gain on sale of operations of $163 million ($146 million after-tax). As this gain is related to a series of one-time transactions, it is excluded from adjusted earnings.

In the first nine months of 2019, the sale resulted in a gain of $153 million ($139 million after-tax). This gain on sale includes $10 million ($7 million after-tax) of transaction costs recognized in previous quarters. As this gain is related to a series of one-time transactions, it is excluded from adjusted earnings.

### TRANSACTION COSTS

The Company incurred transactions costs for the announced sale of Alberta PowerLine Limited Partnership. As these costs are related to a one-time transaction, they are excluded from adjusted earnings.

### PROCEEDS FROM TERMINATION OF PPA

Effective September 30, 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a $62 million payment ($45 million after-tax) from the Balancing Pool.  The payment has been recorded as proceeds from termination of PPA in the statement of earnings for the three and nine months ended September 30, 2018. Additional Battle River generating facility coal-related costs and Asset Retirement Obligations of $9 million were recorded. These one-time receipts and costs in the net amount of $36 million were excluded from adjusted earnings.

**RESTRUCTURING AND OTHER COSTS**

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

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

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

In addition, the Company's retail electricity and natural gas business in Alberta enters into fixed-price swap commodity contracts to manage exposure to electricity and natural gas prices and volumes. Prior to the sale of operations, these contracts were accounted for as normal purchase agreements as they were with an affiliate company and the own use exemption was applied. Starting September 30, 2019, these contracts are measured at fair value. Unrealized gains and losses due to changes in the fair value of the fixed-price swap commodity contracts are recognized in the Corporate & Other segment earnings.

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

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

**RATE-REGULATED ACTIVITIES**

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas, ATCO Pipelines and ATCO Gas Australia are collectively referred to as Regulated 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 Regulated Utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Regulated Utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

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

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

| Timing Adjustment | Items | RRA Treatment | IFRS Treatment |
|---|---|---|---|
| **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. |
| **Revenues to be billed in future periods** | Deferred income taxes, impact of warmer temperatures, and impact of inflation on rate base. | The Company recognizes revenues associated with recoverable costs in advance of future billings to customers. | The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings. |
| **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. |
| **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. |

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

| | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| *($ millions)* | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| **Additional revenues billed in current period** | | | | | | |
| Future removal and site restoration costs (1) | **20** | 19 | 1 | **56** | 58 | (2) |
| Impact of colder temperatures (2) | **3** | 6 | (3) | **15** | 18 | (3) |
| **Revenues to be billed in future periods** | | | | | | |
| Deferred income taxes (3) | **(23)** | (20) | (3) | **(79)** | (79) | – |
| Deferred income taxes due to decrease in provincial corporate tax (4) | **–** | – | – | **203** | – | 203 |
| Impact of inflation on rate base (5) | **(6)** | – | (6) | **(10)** | – | (10) |
| **Regulatory decisions received (see below)** | **3** | – | 3 | **–** | – | – |
| **Settlement of regulatory decisions and other items (6)** | **23** | (24) | 47 | **12** | (93) | 105 |
| | **20** | (19) | 39 | **197** | (96) | 293 |

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

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

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

*(4) In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings in the second quarter of 2019 by $203 million.*

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

*(6) For the nine months ended September 30, 2018, ATCO Electric recorded a decrease in earnings for the period of $38 million mainly related to the refund of deferral account balances for 2013 and 2014. ATCO Gas also recorded a reduction in earnings for the period of $33 million related to the refund of previously over collected transmission costs.*

**Regulatory Decisions Received**

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

| | Decision | Amount | Description |
|---|---|---|---|
| 1. | Information Technology (IT) Common Matters | 17 | In August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015.<br><br>In 2015, the AUC commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to September 30, 2019 was $17 million. Of this amount, $14 million relates to the period January 1, 2015 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining $3 million was recorded in the third quarter of 2019. |
| 2. | ATCO Electric Transmission General Tariff Application (GTA) | (17) | In June 2017, ATCO Electric filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision of $17 million was recorded in the second quarter of 2019. |

**IT COMMON MATTERS DECISION**

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

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

Consistent with the treatment in 2014, the $17 million reduction recognized in 2019 year-to-date, along with future impacts associated with this decision, will not be included in adjusted earnings.

**OTHER**

Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. For the three and nine months ended September 30, 2019, the Company recorded a foreign exchange loss of $1 million and nil, respectively (2018 - a foreign exchange gain of $1 million and a foreign exchange loss of $1 million) due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

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

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

*($ millions)*

| **2019**<br>**2018** | **Three Months Ended September 30** | **Nine Months Ended September 30** |
|---|---|---|
| Funds generated by operations | **414** | **1,355** |
| | 501 | 1,322 |
| Changes in non-cash working capital | **3** | **(183)** |
| | (185) | (74) |
| Change in receivable under service concession arrangement | **(13)** | **(152)** |
| | (130) | (710) |
| Cash flows from operating activities | **404** | **1,020** |
| | 186 | 538 |

# RECONCILIATION OF CAPITAL INVESTMENT TO CAPITAL EXPENDITURES

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

*($ millions)* — **Three Months Ended September 30**

| **2019** / **2018** | **Electricity** | **Pipelines & Liquids** | **CUL Corporate & Other** | **Consolidated** |
|---|---|---|---|---|
| Capital Investment | **117** | **179** | **1** | **297** |
| | 210 | 169 | 6 | 385 |
| Capital Expenditure in joint ventures | **(1)** | **(1)** | **–** | **(2)** |
| | (7) | – | – | (7) |
| Service concession arrangement | **–** | **–** | **–** | **–** |
| | (104) | – | – | (104) |
| Capital Expenditures | **116** | **178** | **1** | **295** |
| | 99 | 169 | 6 | 274 |

*($ millions)* — **Nine Months Ended September 30**

| **2019** / **2018** | **Electricity** | **Pipelines & Liquids** | **CUL Corporate & Other** | **Consolidated** |
|---|---|---|---|---|
| Capital Investment | **432** | **417** | **3** | **852** |
| | 1,084 | 474 | 13 | 1,571 |
| Capital Expenditure in joint ventures | **(1)** | **(1)** | **–** | **(2)** |
| | (11) | (4) | – | (15) |
| Business Combination [1] | **–** | **–** | **–** | **–** |
| | (112) | – | – | (112) |
| Service concession arrangement | **(95)** | **–** | **–** | **(95)** |
| | (620) | – | – | (620) |
| Capital Expenditures | **336** | **416** | **3** | **755** |
| | 341 | 470 | 13 | 824 |

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

# OTHER FINANCIAL INFORMATION

**ACCOUNTING CHANGES**

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

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

On adoption of the new standard on January 1, 2019, the Company recognized $67 million of right-of-use assets and $67 million of lease liabilities. The right-of-use assets and lease liabilities relate to leases for land and buildings. From January 1, 2019, the Company recognizes depreciation expense on right-of-use assets and interest expense on lease liabilities with lease payments recorded as a reduction of the lease liability. Prior to the adoption of IFRS 16, lease payments were recorded as expenses in the statement of earnings. The adoption of IFRS 16 has not had a significant impact on earnings. Further information on the adoption of IFRS 16, right-of-use assets and lease liabilities are provided in Notes 3, 9 and 13 of the unaudited interim consolidated financial statements.

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner's land, and the owner of the pipeline has exclusive use of the underground space. The Company is currently assessing the impact of the interpretation on its pipeline sub-surface arrangements. The assessment is expected to be complete before the end of 2019. Based on the preliminary analysis performed to date, the impact on the consolidated financial statements is not expected to be significant.

There are no other new or amended standards issued, but not yet effective, that the Company anticipates will have a material effect on the unaudited interim consolidated financial statements.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on July 1, 2019, and ended on September 30, 2019, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**FORWARD-LOOKING INFORMATION**

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

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

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

## ADDITIONAL INFORMATION

Canadian Utilities has published its unaudited interim consolidated financial statements and its MD&A for the nine months ended September 30, 2019. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

# GLOSSARY

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

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

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

**AUC** means the Alberta Utilities Commission.

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

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

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

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

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

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

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

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

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

**IFRS** means International Financial Reporting Standards.

**LNG** means liquefied natural gas.

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

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

**PPA** means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electricity utility business in Alberta. PPAs are legislatively mandated and approved by the AUC.

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

**Spark spread** is the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, spark spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

CANADIAN UTILITIES LIMITED
An ATCO Company

# CANADIAN UTILITIES LIMITED

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**(UNAUDITED)**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

# TABLE OF CONTENTS

# CONSOLIDATED STATEMENTS OF EARNINGS

| *(millions of Canadian Dollars except per share data)* | Note | Three Months Ended September 30 2019 | Three Months Ended September 30 2018 | Nine Months Ended September 30 2019 | Nine Months Ended September 30 2018 |
|---|---|---|---|---|---|
| **Revenues** | 5 | **885** | 990 | **2,976** | 3,342 |
| **Costs and expenses** | | | | | |
| Salaries, wages and benefits | | **(81)** | (79) | **(261)** | (320) |
| Energy transmission and transportation | | **(51)** | (45) | **(154)** | (135) |
| Plant and equipment maintenance | | **(69)** | (56) | **(200)** | (173) |
| Fuel costs | | **(48)** | (51) | **(171)** | (161) |
| Purchased power | | **(43)** | (42) | **(156)** | (123) |
| Service concession arrangement costs | | **(15)** | (104) | **(118)** | (620) |
| Depreciation and amortization | 8, 9 | **(117)** | (158) | **(428)** | (491) |
| Franchise fees | | **(43)** | (35) | **(172)** | (158) |
| Property and other taxes | | **(47)** | (47) | **(134)** | (139) |
| Unrealized gains on mark-to-market forward and swap commodity contracts | | **1** | 48 | **2** | 40 |
| Other | | **(74)** | (97) | **(232)** | (275) |
| | | **(587)** | (666) | **(2,024)** | (2,555) |
| **Proceeds from termination of Power Purchase Arrangement** | 4 | **–** | 62 | **–** | 62 |
| **Gain on sale of operations** | 18 | **163** | – | **153** | – |
| **Earnings from investment in joint ventures** | | **3** | 7 | **15** | 19 |
| **Operating profit** | | **464** | 393 | **1,120** | 868 |
| Interest income | | **6** | 6 | **17** | 24 |
| Interest expense | | **(122)** | (121) | **(367)** | (368) |
| **Net finance costs** | | **(116)** | (115) | **(350)** | (344) |
| **Earnings before income taxes** | | **348** | 278 | **770** | 524 |
| **Income tax (expense) recovery** | 6 | **(62)** | (74) | **35** | (141) |
| **Earnings for the period** | | **286** | 204 | **805** | 383 |
| **Earnings attributable to:** | | | | | |
| Equity owners of the Company | | **284** | 202 | **800** | 378 |
| Non-controlling interests | | **2** | 2 | **5** | 5 |
| | | **286** | 204 | **805** | 383 |
| **Earnings per Class A and Class B share** | 7 | **$0.99** | $0.68 | **$2.75** | $1.21 |
| **Diluted earnings per Class A and Class B share** | 7 | **$0.99** | $0.68 | **$2.75** | $1.21 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (millions of Canadian Dollars) | Three Months Ended September 30 2019 | Three Months Ended September 30 2018 | Nine Months Ended September 30 2019 | Nine Months Ended September 30 2018 |
|---|---|---|---|---|
| **Earnings for the period** | **286** | 204 | **805** | 383 |
| **Other comprehensive income (loss), net of income taxes** | | | | |
| *Items that will not be reclassified to earnings:* | | | | |
| Re-measurement of retirement benefits (1) | **55** | 25 | **(60)** | 48 |
| *Items that are or may be reclassified subsequently to earnings:* | | | | |
| Cash flow hedges (2) | **2** | 3 | **(3)** | (1) |
| Cash flow hedges reclassified to earnings (3) | **4** | 4 | **8** | 7 |
| Cash flow hedges reclassified to earnings as a result of sale of operations (*Note 18*) (4) | **9** | – | **9** | – |
| Foreign currency translation adjustment (5) | **(23)** | (24) | **(48)** | (23) |
| | **(8)** | (17) | **(34)** | (17) |
| **Other comprehensive income (loss)** | **47** | 8 | **(94)** | 31 |
| **Comprehensive income for the period** | **333** | 212 | **711** | 414 |
| **Comprehensive income attributable to:** | | | | |
| Equity owners of the Company | **331** | 210 | **706** | 409 |
| Non-controlling interests | **2** | 2 | **5** | 5 |
| | **333** | 212 | **711** | 414 |

*(1) Net of income taxes of $(17) and $18 million for the three and nine months ended September 30, 2019 (2018 - $(8) million and $(17) million).*

*(2) Net of income taxes of nil and $1 million for the three and nine months ended September 30, 2019 (2018 - $(1) million and nil).*

*(3) Net of income taxes of $(1) and $(2) million for the three and nine months ended September 30, 2019 (2018 - $(1) million and $(1) million).*

*(4) Net of income taxes of $(2) and $(2) million for the three and nine months ended September 30, 2019 (2018 - nil and nil).*

*(5) Net of income taxes of nil.*

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# CONSOLIDATED BALANCE SHEETS

| *(millions of Canadian Dollars)* | Note | September 30 2019 | December 31 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 16 | **978** | 599 |
| Accounts receivable and contract assets | | **524** | 676 |
| Finance lease receivables | | **8** | 15 |
| Inventories | | **29** | 31 |
| Restricted project funds | 19 | **–** | 339 |
| Receivable under service concession arrangement | 19 | **–** | 67 |
| Prepaid expenses and other current assets | | **84** | 129 |
| | | **1,623** | 1,856 |
| **Assets of the disposal group classified as held for sale** | 19 | **1,777** | – |
| | | **3,400** | 1,856 |
| **Non-current assets** | | | |
| Property, plant and equipment | 8, 18 | **16,995** | 17,259 |
| Intangibles | 18 | **616** | 630 |
| Right-of-use assets | 3, 9 | **58** | – |
| Investment in joint ventures | 18 | **145** | 195 |
| Finance lease receivables | | **173** | 380 |
| Deferred income tax assets | 6 | **43** | 69 |
| Receivable under service concession arrangement | 19 | **–** | 1,329 |
| Other assets | | **72** | 101 |
| **Total assets** | | **21,502** | 21,819 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank indebtedness | 16 | **75** | – |
| Accounts payable and accrued liabilities | | **472** | 845 |
| Lease liabilities | 3, 13 | **10** | – |
| Other current liabilities | | **35** | 120 |
| Short-term debt | 10 | **–** | 175 |
| Long-term debt | 11 | **60** | 485 |
| Non-recourse long-term debt | 12, 19 | **–** | 20 |
| | | **652** | 1,645 |
| **Liabilities of the disposal group classified as held for sale** | 19 | **1,603** | – |
| | | **2,255** | 1,645 |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 6 | **1,190** | 1,380 |
| Retirement benefit obligations | | **426** | 356 |
| Customer contributions | | **1,718** | 1,798 |
| Lease liabilities | 3, 13 | **49** | – |
| Other liabilities | 18, 19 | **99** | 278 |
| Long-term debt | 11 | **8,893** | 8,419 |
| Non-recourse long-term debt | 12, 19 | **–** | 1,381 |
| **Total liabilities** | | **14,630** | 15,257 |
| **EQUITY** | | | |
| Equity preferred shares | | **1,483** | 1,483 |
| **Class A and Class B share owners' equity** | | | |
| Class A and Class B shares | 15 | **1,227** | 1,226 |
| Contributed surplus | | **15** | 15 |
| Retained earnings | | **4,018** | 3,675 |
| Accumulated other comprehensive loss | | **(58)** | (24) |
| **Total equity attributable to equity owners of the Company** | | **6,685** | 6,375 |
| **Non-controlling interests** | | **187** | 187 |
| **Total equity** | | **6,872** | 6,562 |
| **Total liabilities and equity** | | **21,502** | 21,819 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| *(millions of Canadian Dollars)* | Note | Class A and Class B Shares | Equity Preferred Shares | Contributed Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Total | Non-Controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | **Attributable to Equity Owners of the Company** | | | | | | | |
| December 31, 2017 | | 1,162 | 1,483 | 12 | 3,541 | (45) | 6,153 | 187 | 6,340 |
| Earnings for the period | | – | – | – | 378 | – | 378 | 5 | 383 |
| Other comprehensive income | | – | – | – | – | 31 | 31 | – | 31 |
| Gains on retirement benefits transferred to retained earnings | | – | – | – | 48 | (48) | – | – | – |
| Shares issued | | 47 | – | – | – | – | 47 | – | 47 |
| Dividends | 14, 15 | – | – | – | (370) | – | (370) | (5) | (375) |
| Share-based compensation | | 1 | – | 2 | – | – | 3 | – | 3 |
| September 30, 2018 | | 1,210 | 1,483 | 14 | 3,597 | (62) | 6,242 | 187 | 6,429 |
| December 31, 2018 | | 1,226 | 1,483 | 15 | 3,675 | (24) | 6,375 | 187 | 6,562 |
| Earnings for the period | | **–** | **–** | **–** | **800** | **–** | **800** | **5** | **805** |
| Other comprehensive loss | | **–** | **–** | **–** | **–** | **(94)** | **(94)** | **–** | **(94)** |
| Losses on retirement benefits transferred to retained earnings | | **–** | **–** | **–** | **(60)** | **60** | **–** | **–** | **–** |
| Shares issued | | **3** | **–** | **–** | **–** | **–** | **3** | **–** | **3** |
| Dividends | 14, 15 | **–** | **–** | **–** | **(397)** | **–** | **(397)** | **(5)** | **(402)** |
| Share-based compensation | | **(2)** | **–** | **–** | **–** | **–** | **(2)** | **–** | **(2)** |
| September 30, 2019 | | **1,227** | **1,483** | **15** | **4,018** | **(58)** | **6,685** | **187** | **6,872** |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| (millions of Canadian Dollars) | Note | Three Months Ended September 30 2019 | 2018 | Nine Months Ended September 30 2019 | 2018 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Earnings for the period | | **286** | 204 | **805** | 383 |
| Adjustments to reconcile earnings to cash flows from operating activities | 16 | **128** | 297 | **550** | 939 |
| Changes in non-cash working capital | | **3** | (185) | **(183)** | (74) |
| Change in receivable under service concession arrangement | | **(13)** | (130) | **(152)** | (710) |
| **Cash flows from operating activities** | | **404** | 186 | **1,020** | 538 |
| **Investing activities** | | | | | |
| Additions to property, plant and equipment | | **(276)** | (261) | **(697)** | (767) |
| Proceeds on disposal of property, plant and equipment | | **–** | 1 | **–** | 2 |
| Additions to intangibles | | **(14)** | (7) | **(44)** | (41) |
| Acquisition, net of cash acquired | | **–** | – | **–** | (70) |
| Proceeds on sale of operations, net of cash disposed | 18 | **681** | – | **681** | – |
| Investment in joint ventures | | **–** | – | **–** | (6) |
| Changes in non-cash working capital | | **11** | (17) | **(23)** | (98) |
| Other | | **(2)** | – | **10** | (4) |
| **Cash flows from (used in) investing activities** | | **400** | (284) | **(73)** | (984) |
| **Financing activities** | | | | | |
| Net (repayment) issue of short-term debt | 10 | **(550)** | 150 | **(175)** | 200 |
| Issue of long-term debt | 11 | **580** | 662 | **580** | 702 |
| Release of restricted project funds | | **6** | 152 | **183** | 645 |
| Repayment of long-term debt | 11 | **(300)** | (663) | **(483)** | (709) |
| Repayment of non-recourse long-term debt | 12 | **(18)** | (4) | **(25)** | (11) |
| Repayment of lease liabilities | 13 | **(3)** | – | **(9)** | – |
| Issue of Class A shares | | **3** | – | **3** | 1 |
| Dividends paid on equity preferred shares | | **(17)** | (17) | **(50)** | (50) |
| Dividends paid to non-controlling interests | | **(2)** | (2) | **(5)** | (5) |
| Dividends paid to Class A and Class B share owners | | **(116)** | (90) | **(347)** | (273) |
| Interest paid | | **(101)** | (105) | **(343)** | (343) |
| Other | | **(4)** | (1) | **13** | 3 |
| **Cash flows (used in) from financing activities** | | **(522)** | 82 | **(658)** | 160 |
| **Increase (decrease) in cash position** (1) | | **282** | (16) | **289** | (286) |
| Foreign currency translation | | **20** | 6 | **15** | 2 |
| Beginning of period | | **601** | 144 | **599** | 418 |
| **End of period** | 16 | **903** | 134 | **903** | 134 |

*(1) Cash position includes $5 million which is not available for general use by the Company (2018 - $43 million).*

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(UNAUDITED)**

**SEPTEMBER 30, 2019**

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

## 1. THE COMPANY AND ITS OPERATIONS

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

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

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

The unaudited interim consolidated financial statements include the accounts of Canadian Utilities Limited and its subsidiaries (the Company). The statements also include the accounts of a proportionate share of the Company's investments in joint operations and its equity-accounted investments in joint ventures.

## 2. BASIS OF PRESENTATION

### STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and IFRS Interpretations Committee (IFRIC). They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2018, prepared according to IFRS.

The unaudited interim consolidated financial statements are prepared following the same accounting policies used in the Company’s most recent annual consolidated financial statements, except for the change in accounting policy described in Note 3 and income taxes. In interim periods, income taxes are accrued using an estimate of the annualized effective tax rate applied to year-to-date earnings.

The unaudited interim consolidated financial statements were authorized for issue by the Audit & Risk Committee, on behalf of the Board of Directors, on October 30, 2019.

### BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value.

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, the timing of maintenance outages at power generating plants, and the timing of utility rate decisions.

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

## 3. CHANGE IN ACCOUNTING POLICY

**LEASES**

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

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

***Practical expedients***

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

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

***The Company as a lessee***

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

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

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

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

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

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

***Significant accounting estimates and assumptions***

In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgment to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security. The Company estimates the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

***The Company as a lessor***

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

***Sub-surface Rights***

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

The Company is currently assessing the impact of the interpretation on its pipeline sub-surface arrangements. The assessment is expected to be complete before the end of 2019. Based on the preliminary analysis performed to date, the impact on the consolidated financial statements is not expected to be significant.

## IMPACT OF CHANGES IN ACCOUNTING POLICY

### *Impact of adoption of IFRS 16 on unaudited interim consolidated financial statements*

On January 1, 2019, the Company recognized $67 million of right-of-use assets and $67 million of lease liabilities. The Company applied its weighted average incremental borrowing rate at January 1, 2019, 3.00 per cent, to determine the amount of lease liabilities. The effect of the adjustment to the amounts recognized in the Company's unaudited interim consolidated balance sheet at January 1, 2019 is shown below.

| *(millions of Canadian Dollars)* | Note | December 31, 2018, as previously reported | IFRS 16 re-measurement adjustments on January 1, 2019 | Restated |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Right-of-use assets | 9 | – | 67 | 67 |
| **Total assets** | | 21,819 | 67 | 21,886 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Lease liabilities | 13 | – | 11 | 11 |
| **Non-current liabilities** | | | | |
| Lease liabilities | 13 | – | 56 | 56 |
| **Total liabilities** | | 15,257 | 67 | 15,324 |
| **EQUITY** | | | | |
| Equity preferred shares | | 1,483 | – | 1,483 |
| **Class A and Class B share owners' equity** | | | | |
| Class A and Class B shares | | 1,226 | – | 1,226 |
| Contributed surplus | | 15 | – | 15 |
| Retained earnings | | 3,675 | – | 3,675 |
| Accumulated other comprehensive loss | | (24) | – | (24) |
| **Total equity attributable to equity owners of the Company** | | 6,375 | – | 6,375 |
| **Non-controlling interests** | | 187 | – | 187 |
| **Total equity** | | 6,562 | – | 6,562 |
| **Total liabilities and equity** | | 21,819 | 67 | 21,886 |

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

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

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

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

## 4. SEGMENTED INFORMATION

### SEGMENTED RESULTS

Results by operating segment for the three months ended September 30 are shown below.

| 2019<br>2018 | Electricity | Pipelines & Liquids | Corporate & Other | Intersegment Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues - external | **529** | **325** | **31** | **–** | **885** |
| | 688 | 278 | 24 | – | 990 |
| Revenues - intersegment | **1** | **9** | **10** | **(20)** | **–** |
| | – | 9 | 12 | (21) | – |
| Revenues | **530** | **334** | **41** | **(20)** | **885** |
| | 688 | 287 | 36 | (21) | 990 |
| Operating expenses [(1)] | **(267)** | **(202)** | **(27)** | **26** | **(470)** |
| | (298) | (189) | (42) | 21 | (508) |
| Depreciation and amortization | **(49)** | **(67)** | **(4)** | **3** | **(117)** |
| | (98) | (61) | (2) | 3 | (158) |
| Proceeds from termination of Power Purchase Arrangement | **–** | **–** | **–** | **–** | **–** |
| | 62 | – | – | – | 62 |
| Gain on sale of operations (*Note 18*) | **163** | **–** | **–** | **–** | **163** |
| | – | – | – | – | – |
| Earnings from investment in joint ventures | **1** | **2** | **–** | **–** | **3** |
| | 4 | 3 | – | – | 7 |
| Net finance costs | **(79)** | **(37)** | **–** | **–** | **(116)** |
| | (79) | (38) | 3 | (1) | (115) |
| Earnings (loss) before income taxes | **299** | **30** | **10** | **9** | **348** |
| | 279 | 2 | (5) | 2 | 278 |
| Income tax (expense) recovery | **(49)** | **(6)** | **(3)** | **(4)** | **(62)** |
| | (75) | 1 | 1 | (1) | (74) |
| Earnings (loss) for the period | **250** | **24** | **7** | **5** | **286** |
| | 204 | 3 | (4) | 1 | 204 |
| Adjusted earnings (loss) | **112** | **19** | **(25)** | **–** | **106** |
| | 134 | 17 | (19) | – | 132 |
| Capital expenditures [(3)] | **116** | **178** | **1** | **–** | **295** |
| | 99 | 169 | 6 | – | 274 |

Results by operating segment for the nine months ended September 30 are shown below.

| 2019<br>2018 | Electricity | Pipelines & Liquids | Corporate & Other | Intersegment Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues - external | **1,727** | **1,119** | **130** | **–** | **2,976** |
| | 2,211 | 1,050 | 81 | – | 3,342 |
| Revenues - intersegment | **9** | **47** | **29** | **(85)** | **–** |
| | 10 | 37 | 31 | (78) | – |
| Revenues | **1,736** | **1,166** | **159** | **(85)** | **2,976** |
| | 2,221 | 1,087 | 112 | (78) | 3,342 |
| Operating expenses (1) | **(878)** | **(663)** | **(147)** | **92** | **(1,596)** |
| | (1,351) | (649) | (141) | 77 | (2,064) |
| Depreciation and amortization | **(230)** | **(193)** | **(12)** | **7** | **(428)** |
| | (299) | (193) | (6) | 7 | (491) |
| Proceeds from termination of Power Purchase Arrangement | **–** | **–** | **–** | **–** | **–** |
| | 62 | – | – | – | 62 |
| Gain on sale of operations (*Note 18*) | **153** | **–** | **–** | **–** | **153** |
| | – | – | – | – | – |
| Earnings from investment in joint ventures | **7** | **8** | **–** | **–** | **15** |
| | 13 | 6 | – | – | 19 |
| Net finance costs | **(239)** | **(114)** | **3** | **–** | **(350)** |
| | (238) | (115) | 11 | (2) | (344) |
| Earnings (loss) before income taxes | **549** | **204** | **3** | **14** | **770** |
| | 408 | 136 | (24) | 4 | 524 |
| Income tax recovery (expense) | **30** | **21** | **(5)** | **(11)** | **35** |
| | (111) | (38) | 9 | (1) | (141) |
| Earnings (loss) for the period | **579** | **225** | **(2)** | **3** | **805** |
| | 297 | 98 | (15) | 3 | 383 |
| Adjusted earnings (loss) | **334** | **159** | **(63)** | **2** | **432** |
| | 331 | 145 | (56) | – | 420 |
| Total assets (2) | **13,158** | **7,982** | **443** | **(81)** | **21,502** |
| | 13,494 | 7,842 | 574 | (91) | 21,819 |
| Capital expenditures (3) | **336** | **416** | **3** | **–** | **755** |
| | 341 | 470 | 13 | – | 824 |

*(1) Includes total costs and expenses, excluding depreciation and amortization expense.*
*(2) 2018 comparatives are at December 31, 2018.*
*(3) Includes additions to property, plant and equipment and intangibles and $5 million and $14 million of interest capitalized during construction for the three and nine months ended September 30, 2019 (2018 - $6 million and $16 million).*

## ADJUSTED EARNINGS

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

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

Adjusted earnings are a key measure of segment earnings used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the unaudited interim 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 three months ended September 30 is shown below.

| **2019**<br>**2018** | **Electricity** | **Pipelines & Liquids** | **Corporate & Other** | **Intersegment Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| Adjusted earnings (loss) | **112** | **19** | **(25)** | **–** | **106** |
| | 134 | 17 | (19) | – | 132 |
| Gain on sale of operations (*Note 18*) | **146** | **–** | **–** | **–** | **146** |
| | – | – | – | – | – |
| Transaction costs | **(1)** | **–** | **–** | **–** | **(1)** |
| | – | – | – | – | – |
| Proceeds from termination of Power Purchase Arrangement | **–** | **–** | **–** | **–** | **–** |
| | 36 | – | – | – | 36 |
| Unrealized (losses) gains on mark-to-market forward and swap commodity contracts | **(15)** | **–** | **15** | **–** | **–** |
| | 35 | – | – | – | 35 |
| Rate-regulated activities | **9** | **7** | **–** | **4** | **20** |
| | (3) | (17) | – | 1 | (19) |
| IT Common Matters decision | **(2)** | **(1)** | **–** | **–** | **(3)** |
| | – | – | – | – | – |
| Dividends on equity preferred shares of Canadian Utilities Limited | **–** | **–** | **17** | **–** | **17** |
| | 1 | 1 | 15 | – | 17 |
| Other | **–** | **(1)** | **–** | **–** | **(1)** |
| | – | 1 | – | – | 1 |
| Earnings (loss) attributable to equity owners of the Company | **249** | **24** | **7** | **4** | **284** |
| | 203 | 2 | (4) | 1 | 202 |
| Earnings attributable to non-controlling interests | | | | | **2** |
| | | | | | 2 |
| Earnings for the period | | | | | **286** |
| | | | | | 204 |

The reconciliation of adjusted earnings and earnings for the nine months ended September 30 is shown below.

| 2019<br>2018 | Electricity | Pipelines & Liquids | Corporate & Other | Intersegment Eliminations | Consolidated |
|---|---|---|---|---|---|
| Adjusted earnings (loss) | **334** | **159** | **(63)** | **2** | **432** |
| | 331 | 145 | (56) | – | 420 |
| Gain on sale of operations (*Note 18*) | **139** | – | – | – | **139** |
| | – | – | – | – | – |
| Transaction costs | **(2)** | – | – | – | **(2)** |
| | – | – | – | – | – |
| Restructuring and other costs | – | – | – | – | – |
| | (36) | (19) | (5) | – | (60) |
| Proceeds from termination of Power Purchase Arrangement | – | – | – | – | – |
| | 36 | – | – | – | 36 |
| Unrealized (losses) gains on mark-to-market forward and swap commodity contracts | **(14)** | – | **15** | – | **1** |
| | 29 | – | – | – | 29 |
| Rate-regulated activities | **126** | **70** | – | **1** | **197** |
| | (69) | (30) | – | 3 | (96) |
| IT Common Matters decision | **(9)** | **(8)** | – | – | **(17)** |
| | – | – | – | – | – |
| Dividends on equity preferred shares of Canadian Utilities Limited | **2** | **2** | **46** | – | **50** |
| | 3 | 1 | 46 | – | 50 |
| Other | – | – | – | – | – |
| | – | (1) | – | – | (1) |
| Earnings (loss) attributable to equity owners of the Company | **576** | **223** | **(2)** | **3** | **800** |
| | 294 | 96 | (15) | 3 | 378 |
| Earnings attributable to non-controlling interests | | | | | **5** |
| | | | | | 5 |
| Earnings for the period | | | | | **805** |
| | | | | | 383 |

***Gain on sale of operations***

In the third quarter of 2019, the Company closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation portfolio (see Note 18). The sale resulted in an aggregate gain of $153 million ($139 million after-tax). As the gain is related to a series of one-time transactions, it is excluded from adjusted earnings. This gain includes $10 million ($7 million after-tax) of transaction costs that were recognized and excluded from adjusted earnings in the second quarter of 2019.

***Transaction costs***

The Company incurred transactions costs for the announced sale of Alberta PowerLine Limited Partnership (see Note 19). As these costs are related to a one-time transaction, they are excluded from adjusted earnings.

***Restructuring and other costs***

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

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

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

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

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

Prior to the sale of operations (see Note 18), the Company entered into forward contracts in order to optimize available merchant capacity and manage exposure to electricity market price movements for its Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. The forward contracts were measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts were recognized in the Electricity operating segment earnings where hedge accounting was not applied.

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

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

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

***Rate-regulated activities***

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

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

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

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

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

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| *Additional revenues billed in current period* | | | | |
| Future removal and site restoration costs (1) | **20** | 19 | **56** | 58 |
| Impact of colder temperatures (2) | **3** | 6 | **15** | 18 |
| *Revenues to be billed in future periods* | | | | |
| Deferred income taxes (3) | **(23)** | (20) | **(79)** | (79) |
| Deferred income taxes due to decrease in provincial corporate income tax (4) | **–** | – | **203** | – |
| Impact of inflation on rate base (5) | **(6)** | – | **(10)** | – |
| *Regulatory decisions received (see below)* | **3** | – | **–** | – |
| *Settlement of regulatory decisions and other items (6)* | **23** | (24) | **12** | (93) |
| | **20** | (19) | **197** | (96) |

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

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

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

*(4) In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022 (see Note 6). As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings in the second quarter of 2019 by $203 million.*

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

*(6) For the nine months ended September 30, 2018, ATCO Electric recorded a decrease in earnings for the period of $38 million mainly related to the refund of deferral account balances for 2013 and 2014. ATCO Gas also recorded a reduction in earnings for the period of $33 million related to the refund of previously over collected transmission costs.*

***Regulatory decisions received***

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

| | Decision | Amount | Description |
|---|---|---|---|
| 1. | Information Technology (IT) Common Matters | 17 | In August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015.<br><br>In 2015, the AUC commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to September 30, 2019 was $17 million. Of this amount, $14 million relates to the period January 1, 2015 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining $3 million was recorded in the third quarter of 2019. |
| 2. | ATCO Electric Transmission General Tariff Application (GTA) | (17) | In June 2017, ATCO Electric Transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision of $17 million was recorded in the second quarter of 2019. |

***IT Common Matters decision***

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

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

Consistent with the treatment in 2014, the $17 million reduction recognized in 2019 year-to-date, along with future impacts associated with this decision, will be excluded in adjusted earnings.

***Other***

Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. For the three and nine months ended September 30, 2019, the Company recorded a foreign exchange loss of $1 million and nil, respectively (2018 - a foreign exchange gain of $1 million and a foreign exchange loss of $1 million) due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

## 5. REVENUES

The Company disaggregates revenues based on the revenue streams and by regulated and non-regulated business operations. The disaggregation of revenues by revenue streams by each operating segment for the three months ended September 30 are shown below:

| 2019<br>2018 | Electricity | Pipelines & Liquids | Corporate & Other | Total |
|---|---|---|---|---|
| **Revenue Streams** | | | | |
| ***Sale of Goods*** | | | | |
| Electricity generation and delivery | **122** | **–** | **–** | **122** |
| | 142 | – | – | 142 |
| Commodity sales | **6** | **1** | **–** | **7** |
| | 6 | 2 | – | 8 |
| Total sale of goods | **128** | **1** | **–** | **129** |
| | 148 | 2 | – | 150 |
| ***Rendering of Services*** | | | | |
| Distribution services | **148** | **195** | **–** | **343** |
| | 116 | 179 | – | 295 |
| Transmission services | **168** | **69** | **–** | **237** |
| | 185 | 49 | – | 234 |
| Customer contributions | **4** | **5** | **–** | **9** |
| | 8 | 5 | – | 13 |
| Franchise fees | **7** | **36** | **–** | **43** |
| | 8 | 27 | – | 35 |
| Retail electricity and natural gas services | **–** | **–** | **27** | **27** |
| | – | – | 23 | 23 |
| Storage and industrial water | **–** | **5** | **–** | **5** |
| | – | 11 | – | 11 |
| Total rendering of services | **327** | **310** | **27** | **664** |
| | 317 | 271 | 23 | 611 |
| ***Lease income*** | | | | |
| Finance lease | **2** | **–** | **–** | **2** |
| | 9 | – | – | 9 |
| Operating lease | **22** | **–** | **–** | **22** |
| | 79 | – | – | 79 |
| Total lease income | **24** | **–** | **–** | **24** |
| | 88 | – | – | 88 |
| ***Service concession arrangement*** | **37** | **–** | **–** | **37** |
| | 130 | – | – | 130 |
| ***Other*** | **13** | **14** | **4** | **31** |
| | 5 | 5 | 1 | 11 |
| **Total** | **529** | **325** | **31** | **885** |
| | 688 | 278 | 24 | 990 |

The disaggregation of revenues by revenue streams by each operating segment for the nine months ended September 30 are shown below:

| 2019<br>2018 | Electricity | Pipelines & Liquids | Corporate & Other | Total |
|---|---|---|---|---|
| **Revenue Streams** | | | | |
| ***Sale of Goods*** | | | | |
| Electricity generation and delivery | **398** | **–** | **–** | **398** |
| | 342 | – | – | 342 |
| Commodity sales | **14** | **7** | **–** | **21** |
| | 14 | 8 | – | 22 |
| Total sale of goods | **412** | **7** | **–** | **419** |
| | 356 | 8 | – | 364 |
| ***Rendering of Services*** | | | | |
| Distribution services | **432** | **700** | **–** | **1,132** |
| | 399 | 677 | – | 1,076 |
| Transmission services | **505** | **208** | **–** | **713** |
| | 454 | 178 | – | 632 |
| Customer contributions | **24** | **14** | **–** | **38** |
| | 27 | 14 | – | 41 |
| Franchise fees | **24** | **148** | **–** | **172** |
| | 23 | 135 | – | 158 |
| Retail electricity and natural gas services | **–** | **–** | **113** | **113** |
| | – | – | 77 | 77 |
| Storage and industrial water | **–** | **18** | **–** | **18** |
| | – | 30 | – | 30 |
| Total rendering of services | **985** | **1,088** | **113** | **2,186** |
| | 903 | 1,034 | 77 | 2,014 |
| ***Lease income*** | | | | |
| Finance lease | **18** | **–** | **–** | **18** |
| | 26 | – | – | 26 |
| Operating lease | **65** | **–** | **–** | **65** |
| | 200 | – | – | 200 |
| Total lease income | **83** | **–** | **–** | **83** |
| | 226 | – | – | 226 |
| ***Service concession arrangement*** | **205** | **–** | **–** | **205** |
| | 710 | – | – | 710 |
| ***Other*** | **42** | **24** | **17** | **83** |
| | 16 | 8 | 4 | 28 |
| **Total** | **1,727** | **1,119** | **130** | **2,976** |
| | 2,211 | 1,050 | 81 | 3,342 |

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Rate-regulated business operations** | | | | |
| ***Rate-regulated Electricity*** | | | | |
| Electricity Distribution | **158** | 128 | **488** | 442 |
| Electricity Transmission | **174** | 188 | **524** | 462 |
| | **332** | 316 | **1,012** | 904 |
| ***Rate-regulated Pipelines & liquids*** | | | | |
| Natural Gas Distribution | **197** | 165 | **753** | 697 |
| Natural Gas Transmission | **77** | 51 | **220** | 183 |
| International Natural Gas Distribution | **40** | 47 | **114** | 129 |
| | **314** | 263 | **1,087** | 1,009 |
| **Total rate-regulated business operations** | **646** | 579 | **2,099** | 1,913 |
| **Non-rate-regulated business operations** | | | | |
| ***Non-rate-regulated Electricity*** | | | | |
| Independent Power Plants | **40** | 60 | **206** | 238 |
| Thermal PPA Plants | **88** | 171 | **262** | 336 |
| International Power Generation | **5** | 5 | **14** | 15 |
| Alberta PowerLine | **37** | 130 | **205** | 710 |
| | **170** | 366 | **687** | 1,299 |
| ***Non-rate-regulated Pipelines & liquids*** | | | | |
| Storage and Industrial Water | **5** | 11 | **18** | 30 |
| | **5** | 11 | **18** | 30 |
| ***Other non-rate-regulated business operations*** | | | | |
| Retail Electricity and Natural Gas Services | **27** | 23 | **113** | 77 |
| Other | **37** | 11 | **59** | 23 |
| | **64** | 34 | **172** | 100 |
| **Total non-rate-regulated business operations** | **239** | 411 | **877** | 1,429 |
| **Total** | **885** | 990 | **2,976** | 3,342 |

## 6. INCOME TAXES

On May 28, 2019, the Alberta government passed Bill 3, the Job Creation Tax Cut, which will reduce the Alberta provincial corporate tax rate from 12 per cent to 8 per cent in a phased approach between July 1, 2019 and January 1, 2022.

As a result of this change, the Company made an adjustment to current and deferred income taxes of $1 million and $210 million, respectively, which was recorded in the second quarter of 2019.

The reconciliation of statutory and effective income tax expense for the three months ended September 30, 2019 is as follows:

| | | **2019** | | **2018** |
|---|---|---|---|---|
| Earnings before income taxes | **348** | **%** | 278 | % |
| Income taxes, at statutory rates | **92** | **26.5** | 75 | 27.0 |
| Non-taxable gains | **(26)** | **(7.5)** | – | – |
| Other | **(4)** | **(1.1)** | (1) | (0.4) |
| | **62** | **17.9** | 74 | 26.6 |

The reconciliation of statutory and effective income tax expense for the nine months ended September 30, 2019 is as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Earnings before income taxes | **770** | **%** | 524 | % |
| Income taxes, at statutory rates | **204** | **26.5** | 141 | 27.0 |
| Change in income taxes resulting from decrease in provincial corporate tax rate | **(210)** | **(27.3)** | – | – |
| Non-taxable gains | **(26)** | **(3.4)** | – | – |
| Other | **(3)** | **(0.3)** | – | – |
| | **(35)** | **(4.5)** | 141 | 27.0 |

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

## 7. EARNINGS PER SHARE

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

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Average shares** | | | | |
| Weighted average shares outstanding | **272,624,438** | 271,710,575 | **272,620,882** | 271,203,927 |
| Effect of dilutive stock options | **35,115** | 31,667 | **26,718** | 35,180 |
| Effect of dilutive MTIP | **566,624** | 555,389 | **540,938** | 573,996 |
| Weighted average dilutive shares outstanding | **273,226,177** | 272,297,631 | **273,188,538** | 271,813,103 |
| **Earnings for earnings per share calculation** | | | | |
| Earnings for the period | **286** | 204 | **805** | 383 |
| Dividends on equity preferred shares of the Company | **(17)** | (17) | **(50)** | (50) |
| Dividends to non-controlling interests | **(2)** | (2) | **(5)** | (5) |
| Earnings attributable to Class A and B shares | **267** | 185 | **750** | 328 |
| **Earnings and diluted earnings per Class A and Class B share** | | | | |
| Earnings per Class A and Class B share | **$0.99** | $0.68 | **$2.75** | $1.21 |
| Diluted earnings per Class A and Class B share | **$0.99** | $0.68 | **$2.75** | $1.21 |

## 8. PROPERTY, PLANT AND EQUIPMENT

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

| | Utility Transmission & Distribution | Electricity Generation | Land and Buildings | Construction Work-in-Progress | Other | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| December 31, 2018 | 19,315 | 1,950 | 703 | 661 | 1,042 | 23,671 |
| Additions | **19** | **46** | **1** | **674** | **3** | **743** |
| Transfers | **552** | **5** | **3** | **(571)** | **11** | **–** |
| Retirements and disposals | **(32)** | **(27)** | **(2)** | **–** | **(11)** | **(72)** |
| Reclassification to assets held for sale (1) | **–** | **(1,801)** | **(13)** | **(21)** | **(21)** | **(1,856)** |
| Foreign exchange rate adjustment | **(91)** | **–** | **(2)** | **(6)** | **(3)** | **(102)** |
| September 30, 2019 | **19,763** | **173** | **690** | **737** | **1,021** | **22,384** |
| **Accumulated depreciation** | | | | | | |
| December 31, 2018 | 4,384 | 1,338 | 163 | 84 | 443 | 6,412 |
| Depreciation | **323** | **24** | **14** | **–** | **48** | **409** |
| Retirements and disposals | **(32)** | **(18)** | **(2)** | **–** | **(11)** | **(63)** |
| Reclassification to assets held for sale (1) | **–** | **(1,335)** | **–** | **–** | **(13)** | **(1,348)** |
| Foreign exchange rate adjustment | **(16)** | **–** | **–** | **(2)** | **(3)** | **(21)** |
| September 30, 2019 | **4,659** | **9** | **175** | **82** | **464** | **5,389** |
| **Net book value** | | | | | | |
| December 31, 2018 | 14,931 | 612 | 540 | 577 | 599 | 17,259 |
| September 30, 2019 | **15,104** | **164** | **515** | **655** | **557** | **16,995** |

*(1) In the second quarter of 2019, as a result of the announced sale of the Canadian fossil fuel-based electricity generation portfolio, property, plant and equipment with a net book value of $508 million was reclassified as held for sale. The transactions closed in the third quarter of 2019 (Note 18).*

The additions to property, plant and equipment included $14 million of interest capitalized during construction for the nine months ended September 30, 2019 (2018 - $16 million).

## 9. RIGHT-OF-USE ASSETS

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

| | Note | Land and Buildings |
|---|---|---|
| **Cost** | | |
| January 1, 2019, on adoption of IFRS 16 | 3 | 67 |
| September 30, 2019 | | **67** |
| **Accumulated depreciation** | | |
| January 1, 2019, on adoption of IFRS 16 | 3 | – |
| Depreciation | | **9** |
| September 30, 2019 | | **9** |
| **Net book value** | | |
| January 1, 2019, on adoption of IFRS 16 | 3 | 67 |
| September 30, 2019 | | **58** |

## 10. SHORT-TERM DEBT

At September 30, 2019, the Company had no commercial paper outstanding (December 31, 2018 - $175 million of commercial paper outstanding at a weighted average effective interest rate of 2.25 per cent, matured in January 2019).

## 11. LONG-TERM DEBT

On September 5, 2019, CU Inc., a wholly owned subsidiary of the Company, issued $580 million of 2.963 per cent debentures maturing on September 7, 2049.

CU Inc. also repaid $180 million of 5.432 per cent debentures on January 23, 2019 and $300 million of 6.8 per cent debentures on August 13, 2019.

## 12. NON-RECOURSE LONG-TERM DEBT

Following the announcement of agreements to sell the Canadian fossil fuel-based electricity generation portfolio (see Note 18), the Company included $60 million of its non-recourse long-term debt in liabilities of the disposal group classified as held for sale at June 30, 2019. Subsequently, the Company assumed $18 million of the non-recourse long-term debt previously classified in liabilities of the disposal group, and repaid this balance in September 2019.

The remaining $42 million of the non-recourse long-term debt was included in net assets of the operations sold (see Note 18).

Along with the payments made in the first and second quarters of 2019, the Company's total repayment of the non-recourse long-term debt during the three and nine months ended September 30, 2019, was $18 million and $25 million, respectively.

## 13. LEASE LIABILITIES

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

| | Note | |
|---|---|---|
| January 1, 2019, on adoption of IFRS 16 | 3 | 67 |
| Interest expense | | **1** |
| Lease payments | | **(9)** |
| | | **59** |
| Less: amounts due within one year | | **(10)** |
| September 30, 2019 | | **49** |

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

| | |
|---|---|
| In one year or less | **12** |
| In more than one year, but not more than five years | **37** |
| In more than five years | **19** |
| | **68** |

During the three and nine months ended September 30, 2019, $1 million and $3 million, respectively, was expensed in relation to low-value leases, and no expenses were incurred in relation to short-term leases or leases with variable payments.

## 14. EQUITY PREFERRED SHARES

Cash dividends declared and paid per share are as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(dollars per share)* | **2019** | **2018** | **2019** | **2018** |
| **Perpetual Cumulative Second Preferred Shares** | | | | |
| 4.60% Series V | **0.2875** | 0.2875 | **0.8625** | 0.8625 |
| **Cumulative Redeemable Second Preferred Shares** | | | | |
| 3.403% Series Y | **0.2127** | 0.2127 | **0.6381** | 0.6381 |
| 4.90% Series AA | **0.3063** | 0.3063 | **0.9188** | 0.9188 |
| 4.90% Series BB | **0.3063** | 0.3063 | **0.9188** | 0.9188 |
| 4.50% Series CC | **0.2813** | 0.2813 | **0.8438** | 0.8438 |
| 4.50% Series DD | **0.2813** | 0.2813 | **0.8438** | 0.8438 |
| 5.25% Series EE | **0.3281** | 0.3281 | **0.9844** | 0.9844 |
| 4.50% Series FF | **0.2813** | 0.2813 | **0.8438** | 0.8438 |

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

## 15. CLASS A AND CLASS B SHARES

At September 30, 2019, there were 199,510,531 (December 31, 2018 - 199,366,495) Class A shares and 73,724,794 (December 31, 2018 - 73,774,980) Class B shares outstanding. In addition, there were 691,250 options to purchase Class A shares outstanding at September 30, 2019, under the Company's stock option plan.

### DIVIDENDS

The Company declared and paid cash dividends of $0.4227 and $1.2681 per Class A and Class B share during the three and nine months ended September 30, 2019 (2018 - $0.3933 and $1.1799). The Company’s policy is to pay dividends quarterly on its Class A and Class B shares. The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

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

### DIVIDEND REINVESTMENT PROGRAM

No Class A shares were issued under the Company's dividend reinvestment program (DRIP) during the three and nine months ended September 30, 2019, as on January 10, 2019, the DRIP was suspended.

During the three and nine months ended September 30, 2018, 514,300 and 1,494,809 Class A shares were issued under the DRIP, using re-invested dividends of $16 million and $47 million. The shares were priced at an average of $31.11 and $31.63 per share, respectively.

## 16. 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.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Depreciation and amortization | **117** | 158 | **428** | 491 |
| Gain on sale of operations (*Note 18*) | **(163)** | – | **(153)** | – |
| Earnings from investment in joint ventures, net of dividends received | **–** | 1 | **2** | – |
| Income tax expense (recovery) | **62** | 74 | **(35)** | 141 |
| Unearned availability incentives | **1** | (10) | **7** | (14) |
| Unrealized gains on mark-to-market forward and swap commodity contracts | **(1)** | (48) | **(2)** | (40) |
| Contributions by customers for extensions to plant | **19** | 16 | **54** | 64 |
| Amortization of customer contributions | **(9)** | (13) | **(38)** | (41) |
| Net finance costs | **116** | 115 | **350** | 344 |
| Income taxes paid | **(20)** | (6) | **(76)** | (44) |
| Other | **6** | 10 | **13** | 38 |
| | **128** | 297 | **550** | 939 |

### CASH POSITION

Cash position in the consolidated statements of cash flows at September 30 is comprised of:

| | **2019** | **2018** |
|---|---|---|
| Cash | **972** | 216 |
| Short-term investments | **1** | 4 |
| Restricted cash (1) | **5** | 43 |
| Cash and cash equivalents | **978** | 263 |
| Bank indebtedness | **(75)** | (129) |
| | **903** | 134 |

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

## 17. FINANCIAL INSTRUMENTS

### FAIR VALUE MEASUREMENT

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

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

### FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

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

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| Recurring Measurements | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial Assets** | | | | |
| Finance lease receivables | **181** | **256** | 395 | 487 |
| Receivable under service concession arrangement (1) | – | – | 1,396 | 1,396 |
| **Financial Liabilities** | | | | |
| Long-term debt | **8,953** | **10,735** | 8,904 | 9,547 |
| Non-recourse long-term debt *(Note 12, Note 19)* | – | – | 1,401 | 1,474 |

*(1) Reclassified as assets held for sale (Notes 19).*

**FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**

The Company's derivative instruments are measured at fair value. At September 30, 2019, the following derivative instruments were outstanding:

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

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

| | Subject to Hedge Accounting | | Not Subject to Hedge Accounting | | |
|---|---|---|---|---|---|
| **Recurring Measurements** | **Interest Rate Swaps** | **Commodities** | **Commodities** | **Foreign Currency Forward Contracts** | **Total Fair Value of Derivatives** |
| **September 30, 2019** | | | | | |
| **Financial Assets** | | | | | |
| Prepaid expenses and other current assets | — | **21** | — | — | **21** |
| Other assets | — | **27** | — | — | **27** |
| **Financial Liabilities** | | | | | |
| Other current liabilities | **3** | **13** | — | — | **16** |
| Other liabilities | **1** | **14** | — | — | **15** |
| **December 31, 2018** | | | | | |
| **Financial Assets** | | | | | |
| Prepaid expenses and other current assets | 1 | 2 | — | — | 3 |
| Other assets | 1 | 2 | 4 | — | 7 |
| **Financial Liabilities** | | | | | |
| Other current liabilities (1) | — | 15 | 34 | 4 | 53 |
| Other liabilities (1) | 3 | 8 | 27 | — | 38 |

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

***Notional and maturity summary***

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

| | Subject to Hedge Accounting | | | Not Subject to Hedge Accounting | | |
|---|---|---|---|---|---|---|
| **Notional value and maturity** | **Interest Rate Swaps** | **Natural Gas [1]** | **Power [2]** | **Natural Gas [1]** | **Power [2]** | **Foreign Currency Forward Contracts** |
| **September 30, 2019** | | | | | | |
| Purchases [3] | – | **22,989,458** | **2,383,580** | – | – | – |
| Sales [3] | – | **24,301,893** | **2,709,124** | – | – | – |
| Currency | | | | | | |
| Australian dollars | **741** | – | – | – | – | – |
| Mexican pesos | **570** | – | – | – | – | **100** |
| Maturity | **2019-2023** | **2019-2024** | **2019-2024** | – | – | **2019** |
| **December 31, 2018** | | | | | | |
| Purchases [3] | – | 12,545,000 | – | 58,518,200 | 3,254,650 | – |
| Sales [3] | – | – | 1,193,640 | 7,740,700 | 7,574,926 | – |
| Currency | | | | | | |
| Canadian dollars | 2 | – | – | – | – | – |
| Australian dollars | 744 | – | – | – | – | – |
| Mexican pesos | 570 | – | – | – | – | 140 |
| British pounds | – | – | – | – | – | 74 |
| Maturity | 2019-2023 | 2019-2021 | 2019-2020 | 2019-2022 | 2019-2021 | 2019 |

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

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

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

## 18. SALE OF OPERATIONS

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

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

An agreement with Heartland Generation Ltd., an affiliate of Energy Capital Partners, closed on September 30, 2019, and includes the sale of 10 partly or fully owned natural gas-fired and coal-fired electricity generation assets located in Alberta and British Columbia. In two other separate transactions, the Company entered into agreements to sell its 50 per cent ownership interest in the Cory Cogeneration Station to SaskPower International and its 50 per cent ownership interest in Brighton Beach Power to Ontario Power Generation. This portfolio of transactions all closed in the third quarter of 2019 and resulted in gross proceeds of $821 million, which is subject to final post-close adjustments for working capital and other customary items.

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

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

| | Assets and liabilities of the disposal group classified as held for sale at June 30, 2019 | Assets and liabilities of the disposal group prior to sale of operations | Assets and liabilities of disposal group sold |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 141 | 89 | |
| Accounts receivable and contract assets | 68 | 77 | |
| Finance lease receivables | 11 | 12 | |
| Prepaid expenses and other current assets | 40 | 18 | |
| | 260 | 196 | |
| **Non-current assets** | | | |
| Property, plant and equipment | 508 | 535 | |
| Intangibles | 18 | 17 | |
| Investment in joint ventures | 35 | 35 | |
| Finance lease receivables | 207 | 202 | |
| Deferred income tax assets | 12 | 32 | |
| Other assets | 23 | 49 | |
| **Assets of the disposal group** | 1,063 | 1,066 | **1,066** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable, accrued liabilities and other current liabilities | 110 | 159 | |
| Non-recourse long-term debt (1) | 15 | 10 | |
| | 125 | 169 | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 23 | 28 | |
| Customer contributions | 97 | 96 | |
| Other liabilities | 163 | 187 | |
| Non-recourse long-term debt (1) | 45 | 32 | |
| **Liabilities of the disposal group** | 453 | 512 | **512** |
| **Net assets of the disposal group** | | | **554** |

*(1) As part of the negotiation process with Heartland Generation Ltd., the Company assumed $18 million of non-recourse long-term debt previously classified in liabilities of the disposal group. This amount was repaid in September 2019 (see Note 12).*

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

*(millions of Canadian Dollars)*

| | |
|---|---|
| **Aggregate consideration as per share purchase agreement** | **821** |
| Debt adjustments [1] | **(109)** |
| Working capital and other purchase price adjustments | **58** |
| **Cash consideration received** | **770** |
| **Carrying value of net assets sold and other items** | |
| Carrying value of net assets sold | **(554)** |
| Transaction costs [2] | **(29)** |
| Write-down of natural gas inventory [3] | **(19)** |
| Other directly attributable costs | **(15)** |
| | **(617)** |
| **Gain on sale before income taxes** | **153** |
| Income tax expense | **(14)** |
| **Gain on sale after income taxes** | **139** |

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

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

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

## 19. DISPOSAL GROUP AND ASSETS CLASSIFIED AS HELD FOR SALE

***Alberta PowerLine assets classified as held for sale***

On June 24, 2019, the Company announced that it had entered into agreements to sell its entire ownership interest in Alberta PowerLine (APL disposal group), a partnership between the Company and Quanta Services Inc. for aggregate proceeds of approximately $300 million and the assumption of approximately $1.4 billion of debt, excluding deferred financing charges.

The transaction is expected to close before December 31, 2019, subject to the receipt of regulatory and bondholder approvals, and the satisfaction of other customary closing conditions.

The Company has classified the assets and liabilities of the APL disposal group as assets held for sale. These assets and liabilities are reported in the Electricity operating segment.

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

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

The major classes of assets and liabilities of the APL disposal group as at September 30, 2019 are as follows:

| *(millions of Canadian Dollars)* | |
|---|---|
| **ASSETS** | |
| **Current assets** | |
| Accounts receivable and contract assets | **1** |
| Restricted project funds | **229** |
| Receivable under service concession arrangement | **106** |
| | **336** |
| **Non-current assets** | |
| Receivable under service concession arrangement | **1,441** |
| **Assets of the disposal group classified as held for sale** | **1,777** |
| | |
| **LIABILITIES** | |
| **Current liabilities** | |
| Accounts payable, accrued liabilities and other current liabilities | **153** |
| Non-recourse long-term debt | **20** |
| | **173** |
| **Non-current liabilities** | |
| Deferred income tax liabilities | **55** |
| Other liabilities | **61** |
| Non-recourse long-term debt | **1,314** |
| **Liabilities of the disposal group classified as held for sale** | **1,603** |
| **Net assets of disposal group classified as held for sale** | **174** |