CU INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

February 24, 2016

Independent Auditor's Report

To the Share Owner of CU Inc.

We have audited the accompanying consolidated financial statements of CU Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CU Inc. and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

CU INC.
CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars)	Note	Year Ended December 31 2015	2014
Revenues			
Rendering of services		**2,371**	2,246
Costs and expenses			
Salaries, wages and benefits		**(336)**	(264)
Energy transmission and transportation		**(176)**	(149)
Plant and equipment maintenance		**(197)**	(178)
Fuel costs		**(14)**	(19)
Purchased power		**(69)**	(65)
Depreciation and amortization	9,10	**(389)**	(355)
Franchise fees		**(201)**	(218)
Property and other taxes		**(54)**	(52)
Other	6	**(193)**	(186)
		(1,629)	(1,486)
Operating profit		**742**	760
Interest income		**14**	15
Interest expense	12	**(245)**	(230)
Net finance costs		**(231)**	(215)
Earnings before income taxes		**511**	545
Income taxes	7	**(199)**	(138)
Earnings for the year		**312**	407

See accompanying Notes to Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year Ended December 31	
(millions of Canadian Dollars)	**Note**	**2015**	**2014**
Earnings for the year		**312**	407
Other comprehensive income (loss), net of income taxes:			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [1]	20	**2**	(13)
Comprehensive income for the year		**314**	394

(1) Net of income taxes of $(1) million for the year ended December 31, 2015 (2014 - $5 million).

See accompanying Notes to Consolidated Financial Statements.

CU INC.
CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	December 31 2015	 2014
ASSETS			
Current assets			
Cash and cash equivalents		**18**	44
Accounts receivable		**292**	314
Accounts receivable from parent and affiliate companies	23	**23**	30
Inventories	8	**31**	60
Prepaid expenses and other current assets		**18**	13
		382	461
Non-current assets			
Property, plant and equipment	9	**13,475**	12,536
Intangibles	10	**457**	383
Long-term advances to affiliate company	23	**130**	130
Other assets		**13**	12
Total assets		**14,457**	13,522
LIABILITIES			
Current liabilities			
Bank indebtedness	11	**1**	4
Short-term advances from parent company	23	**26**	18
Accounts payable and accrued liabilities		**562**	659
Accounts payable to parent and affiliate companies	23	**12**	12
Other current liabilities		**8**	–
		609	693
Non-current liabilities			
Deferred income tax liabilities	7	**934**	743
Retirement benefit obligations	20	**141**	141
Deferred revenues	13	**1,587**	1,454
Other liabilities		**4**	4
Long-term debt	12	**6,916**	6,269
Total liabilities		**10,191**	9,304
EQUITY			
Equity preferred shares	16	**187**	187
Equity preferred shares to parent company	16,23	**79**	79
Class A and Class B share owner's equity			
Class A and Class B shares	17	**1,056**	1,056
Retained earnings		**2,944**	2,896
		4,000	3,952
Total equity		**4,266**	4,218
Total liabilities and equity		**14,457**	13,522

See accompanying Notes to Consolidated Financial Statements.

[Original Signed by N.C. Southern]
DIRECTOR

[Original Signed by R.J. Urwin]
DIRECTOR

CU INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2013		930	422	2,522	–	3,874
Earnings for the year		–	–	407	–	407
Other comprehensive loss		–	–	–	(13)	(13)
Losses on retirement benefits transferred to retained earnings	20	–	–	(13)	13	–
Shares issued	17	126	–	–	–	126
Shares redeemed	16	–	(156)	(4)	–	(160)
Dividends	18	–	–	(16)	–	(16)
December 31, 2014		**1,056**	**266**	**2,896**	**–**	**4,218**
Earnings for the year		**–**	**–**	**312**	**–**	**312**
Other comprehensive income		**–**	**–**	**–**	**2**	**2**
Gains on retirement benefits transferred to retained earnings	20	**–**	**–**	**2**	**(2)**	**–**
Dividends	18	**–**	**–**	**(266)**	**–**	**(266)**
December 31, 2015		**1,056**	**266**	**2,944**	**–**	**4,266**

See accompanying Notes to Consolidated Financial Statements.

CU INC.
CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Year Ended December 31 2015	2014
Operating activities			
Earnings for the year		**312**	407
Adjustments to reconcile earnings to cash flows from operating activities	21	**933**	812
Changes in non-cash working capital	21	**52**	(26)
Cash flows from operating activities		**1,297**	1,193
Investing activities			
Additions to property, plant and equipment		**(1,207)**	(1,921)
Proceeds on disposal of property, plant and equipment		**9**	2
Additions to intangibles		**(112)**	(83)
Changes in non-cash working capital	21	**(87)**	52
Other		**1**	(1)
Cash flows used in investing activities		**(1,396)**	(1,951)
Financing activities			
Issue of long-term debt	12	**650**	1,200
Repayment of long-term debt		**–**	(101)
Redemption of equity preferred shares	16	**–**	(160)
Issue of Class A and Class B shares	17	**–**	126
Dividends paid on equity preferred shares	18	**(11)**	(16)
Dividends paid to Class A and Class B share owner	18	**(255)**	–
Interest paid		**(322)**	(280)
Interest received from affiliate company	23	**12**	12
Other		**(6)**	(7)
Cash flows from financing activities		**68**	774
(Decrease) increase in cash position [1]		**(31)**	16
Beginning of year		**22**	6
End of year		**(9)**	22

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and short-term advances from parent company.

See accompanying Notes to Consolidated Financial Statements.

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 700, 909 - 11th Avenue SW, Calgary, Alberta, T2R 1N6. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

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

The consolidated financial statements include the accounts of CU Inc. and its subsidiaries (the Company).

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

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

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 24, 2016.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, employee retirement benefit liabilities and cash-settled share-based compensation liabilities as disclosed in the applicable accounting policies.

Certain comparative figures are reclassified to conform to the current presentation.

3. ACCOUNTING POLICIES

CHANGE IN ACCOUNTING POLICIES

Financial Instruments

The Company adopted IFRS 9 (2013) *Financial Instruments* effective January 1, 2015. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It includes revised guidance on the classification and measurement of financial assets and liabilities and additional guidance on general hedge accounting.

Previously, the Company classified financial assets when they were first recognized as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Under IFRS 9 (2013), the Company classifies financial assets under the same two measurement categories as financial liabilities; amortized cost or fair value through profit and loss. All of the Company’s financial assets and financial liabilities will continue to be classified and measured at amortized cost. The adoption of this standard has not resulted in any changes to comparative figures.

CONSOLIDATION

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

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

RATE REGULATION

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

In the absence of a rate-regulated standard under IFRS that the Company is eligible to adopt, 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 (see revenue recognition accounting policy below).

Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meets the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

SEGMENTED INFORMATION

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

REVENUE RECOGNITION

Revenues from the regulated distribution of natural gas and the regulated distribution of electricity include variable and fixed charges. Variable charges are recognized using meter readings on delivery of the commodity to customers and include an estimate of usage not yet billed. Fixed charges are based on the distribution service provided during the period.

Revenues for the use of regulated electricity transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from the regulated transmission of natural gas are recognized based on AUC-approved revenue requirement (cost of service).

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

SHORT-TERM EMPLOYEE BENEFITS

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

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

FRANCHISE FEES

Municipal governments charge franchise fees to the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

INCOME TAXES

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

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

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

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

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

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

Major overhaul costs are capitalized and depreciated on a straight-line basis to the next major overhaul. Other repair and maintenance costs are expensed when incurred.

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	40 to 75 years	58 years	1.7%
Electricity distribution equipment	15 to 75 years	35 years	2.8%
Gas transmission equipment	3 to 81 years	43 years	2.3%
Gas distribution plant and equipment	10 to 57 years	40 years	2.5%
Buildings	1 to 55 years	53 years	1.9%
Other:			
Other plant, equipment and machinery	3 to 50 years	25 years	4.1%

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

INTANGIBLES

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

PROVISIONS AND CONTINGENCIES

The Company recognizes provisions when:

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

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

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

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

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

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

Offsetting financial instruments

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

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

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

Derecognition of financial instruments

Financial assets are derecognized:

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

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

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

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

RETIREMENT BENEFITS

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2013.

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in Canadian dollars. Transactions denominated in foreign currencies are translated at the exchange rate at the transaction date.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. Standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements or note disclosures are described below.

Standard	Description	Impact	Effective Date
IFRS 9 (2014) *Financial Instruments*	This final standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments.	The Company has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 15 *Revenue from Contracts with Customers*	This standard replaces previous guidance on revenue recognition. It provides a framework to determine when to recognize revenue and at what amount.	It applies to new contracts created on or after the effective date and to existing contracts not yet completed as of the effective date. The Company has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 16 *Leases*	This standard replaces IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize assets and 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. However, lessor accounting remains similar to previous guidance and the distinction between operating and finance leases is retained. The Company has not yet determined the impact of the final standard.	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.

4. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of long-lived assets

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

Property, plant and equipment and intangibles

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

Income taxes

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

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

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

Useful lives of property, plant and equipment and intangibles

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

Impairment of long-lived assets

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

Retirement benefits

Costs for the non-registered defined benefit pension and OPEB plans are determined using the projected unit credit method and reflect management's best estimates of investment returns, long-term inflation rate, wage and salary increases, age at retirement, liability discount rates and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period. Key assumptions used to determine benefit cost and obligation are shown in Note 20.

Income taxes

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

5. SEGMENTED INFORMATION

SEGMENT DESCRIPTIONS AND PRINCIPAL ACTIVITIES

The Company's operating segments are reported in the same way as internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM consists of the Office of the Chair, comprised of the Chair and Chief Executive Officer, and five other senior executives.

In the fourth quarter of 2015, the Company reorganized its operating subsidiaries into the following segments: Electricity, Pipelines & Liquids, and Corporate & Other. Comparative amounts for prior periods have been restated to reflect the realigned segments. Management has determined that the operating subsidiaries in the reportable segments below share similar economic characteristics, as such they have been aggregated.

Electricity	The Electricity segment is comprised of the distribution and transmission businesses of ATCO Electric, which provides distributed generation, electricity distribution, transmission and infrastructure development mainly in northern and central east Alberta, the Yukon and the Northwest Territories.
Pipelines & Liquids	The Pipelines & Liquids segment is comprised of ATCO Gas and ATCO Pipelines. These businesses provide natural gas transmission, distribution and infrastructure development throughout Alberta and in the Lloydminster area of Saskatchewan.

SEGMENTED RESULTS

Results by operating segment for the years ended December 31, 2015 and 2014 are shown below.

YEAR ENDED DECEMBER 31

2015 2014 (Restated)	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**1,245**	**1,126**	**–**	**–**	**2,371**
	1,171	1,075	–	–	2,246
Revenues - intersegment	**–**	**1**	**–**	**(1)**	**–**
	–	1	–	(1)	–
Revenues	**1,245**	**1,127**	**–**	**(1)**	**2,371**
	1,171	1,076	–	(1)	2,246
Operating expenses [(1)]	**(520)**	**(721)**	**–**	**1**	**(1,240)**
	(461)	(671)	–	1	(1,131)
Depreciation and amortization	**(234)**	**(155)**	**–**	**–**	**(389)**
	(210)	(145)	–	–	(355)
Net finance costs	**(132)**	**(99)**	**–**	**–**	**(231)**
	(122)	(93)	–	–	(215)
Earnings before income taxes	**359**	**152**	**–**	**–**	**511**
	378	167	–	–	545
Income taxes	**(136)**	**(63)**	**–**	**–**	**(199)**
	(96)	(42)	–	–	(138)
Earnings for the year	**223**	**89**	**–**	**–**	**312**
	282	125	–	–	407
Adjusted earnings	**248**	**147**	**–**	**–**	**395**
	273	136	–	–	409
Total assets [(2)]	**9,612**	**4,715**	**131**	**(1)**	**14,457**
	9,130	4,260	133	(1)	13,522
Total liabilities [(2)]	**6,716**	**3,338**	**223**	**(86)**	**10,191**
	6,248	2,911	215	(70)	9,304
Capital expenditures [(3)]	**826**	**588**	**–**	**–**	**1,414**
	1,602	477	–	–	2,079

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

(2) Total assets and total liabilities do not reflect adjustments for rate-regulated activities included in adjusted earnings.

(3) Includes additions to property, plant and equipment and intangibles and $95 million (2014 - $75 million) of interest capitalized during construction for the year ended December 31, 2015.

ADJUSTED EARNINGS

Adjusted earnings are earnings after adjusting for the timing of revenues and expenses for rate-regulated activities and dividends on equity preferred shares of the Company. 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 used by the CODM to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the 2015 and 2014 year is shown below.

2015 **2014 (Restated)**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings	**248**	**147**	**–**	**–**	**395**
	273	136	–	–	409
Restructuring costs	**(25)**	**(31)**	**–**	**–**	**(56)**
	–	–	–	–	–
Rate-regulated activities	**(6)**	**(32)**	**–**	**–**	**(38)**
	(1)	(17)	–	–	(18)
Dividends on equity preferred shares of the Company	**6**	**5**	**–**	**–**	**11**
	10	6	–	–	16
Earnings for the year	**223**	**89**	**–**	**–**	**312**
	282	125	–	–	407

Restructuring costs

In 2015, the Company recorded restructuring costs of $56 million, after-tax, that were not in the normal course of business. These costs were primarily related to staff reductions and associated severance costs, and lease termination costs.

Rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities. 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 segment disclosures on this basis.

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

	Rate-Regulated Accounting Treatment	**IFRS Treatment**
1.	The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
3.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.
4.	Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group are deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Company then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

Timing adjustments for rate-regulated activities are as follows:

	2015	2014
Additional revenues billed in current period:		
Future removal and site restoration costs [1]	**35**	23
Finance costs on major transmission capital projects [2]	**62**	46
Impact of colder temperatures on revenues [3]	**–**	7
Other	**6**	10
	103	86
Revenues to be billed in future periods:		
Deferred income taxes [4]	**(91)**	(86)
Deferred income taxes due to increase in provincial corporate tax rate [4]	**(67)**	–
Transmission access payments [5]	**(8)**	(7)
Transmission capital deferral [6]	**–**	(6)
Impact of warmer temperatures on revenues [3]	**(20)**	–
Other	**–**	(10)
	(186)	(109)
Regulatory decisions related to current and prior periods:		
Generic cost of capital decision [7]	**41**	–
Capital tracker decision [7]	**12**	–
Evergreen decision [7]	**–**	4
Transmission access payment recoveries [7]	**10**	13
Transmission capital deferral refunds [7]	**(20)**	(10)
Refunds relating to temperature fluctuations [3]	**(3)**	(4)
Other	**5**	2
	45	5
	(38)	(18)

Descriptions of the adjustments, and the timing of recovery or refund, are as follows:

	Description	**Timing of Recovery or Refund**
1.	Removal and site restoration costs billed to customers are based on the costs forecast to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.
2.	Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred.	The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.
3.	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. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.	ATCO Gas may apply to the AUC for recoveries from or refunds to customers when the net revenue variances exceed $7 million at April 30th of any year for either of its North or South systems.
4.	Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred income taxes are not billed to customers unless directed to do so by the regulator. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods. In the second quarter of 2015, the Government of Alberta announced an increase in the provincial corporate tax rate from 10 per cent to 12 per cent effective July 1, 2015. As a result of this change, the Company increased income taxes and reduced earnings for the year ended December 31, 2015 by $67 million (see Note 7), all of which relates to deferred income taxes for the Alberta utilities.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
5.	Transmission access payments billed to customers by ATCO Electric are based on the forecast payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods.	Recoveries from or refunds to customers of the differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the next 6 to 12 months.

6.	For major transmission capital projects, ATCO Electric's billings to customers include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the Alberta Electric System Operator (AESO), will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred.	Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.
7.	The utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under rate-regulated accounting, revenues from regulatory decisions that affect current and prior periods are recognized when the decision is received.	**Generic Cost of Capital Decision** The utilities recorded a reduction in adjusted earnings of $51 million in 2015 for an AUC decision which reduced the Return on Equity and deemed common equity ratios for 2013 to 2015. Of the $51 million recorded in 2015, $31 million related to 2013 and 2014. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings; $10 million has been refunded as at the end of the year 2015. **Capital Tracker Decision** ATCO Gas and the distribution operations of ATCO Electric recorded a reduction in adjusted earnings of $16 million in 2015 for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the $16 million recorded in 2015, $8 million related to 2013 and 2014. Although these decisions included approval of the Company's applied for Capital Tracker programs, the decisions resulted in lower Capital Tracker rates than previously approved primarily due to the AUC requiring the utilities to use the actual cost of debt in the rate determinations, which was lower than the forecast cost of debt that was previously being used. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings; $4 million has been refunded as at the end of the year 2015. **Evergreen Decision** The utilities recorded a reduction in adjusted earnings of $32 million in 2014 for an AUC decision which disallowed a portion of the information technology and customer care and billing costs (Evergreen decision) incurred in the period 2010 to 2014. In the fourth quarter of 2014, customer rates were adjusted and $28 million was refunded to customers.

	Transmission Access Payment Recoveries In 2014 and 2015, actual payments for transmission access paid by ATCO Electric exceeded forecast costs included in billings to customers. These excess costs are subsequently recovered from customers. **Transmission Capital Deferral Refunds** In 2014 and 2015, ATCO Electric refunded amounts to customers over-collected in 2011 and 2012 for major transmission capital projects.

6. OTHER COSTS AND EXPENSES

Other costs and expenses are as follows:

	2015	2014
Goods and services [(1)]	**168**	169
Rent and utilities	**25**	17
	193	186

(1) Goods and services include professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

7. INCOME TAXES

CHANGE IN INCOME TAX RATE

In the second quarter of 2015, the Government of Alberta announced an increase in the provincial corporate tax rate from 10 per cent to 12 per cent effective July 1, 2015. As a result of this change, the Company made an adjustment of $67 million to deferred income taxes in 2015 as follows:

	Balance at December 31, 2014	Year Ended December 31, 2015	Total
Change in Alberta corporate tax rate included in:			
Deferred income taxes	59	8	67

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2015	2014
Current income tax expense		
Expenses for the year	**10**	19
Adjustment in respect of prior years	**(1)**	–
	9	19
Deferred income tax expense		
Reversal of temporary differences	**123**	119
Amount relating to change in tax rates	**67**	–
	190	119
	199	138

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

	2015		2014	
Earnings before income taxes	**511**	**%**	545	%
Income taxes, at statutory rates	**133**	**26.0**	136	25.0
Change in deferred income taxes resulting from increase in provincial corporate tax rate	**67**	**13.1**	–	–
Other	**(1)**	**(0.2)**	2	0.3
	199	**38.9**	138	25.3

As the tax rate change came into effect on July 1, 2015, the combined federal and Alberta statutory Canadian income tax rate for 2015 is 26.0 per cent (2014 - 25.0 per cent).

INCOME TAX ASSETS AND LIABILITIES

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

	Balance Sheet Presentation	2015	2014
Income tax assets			
Current	Prepaid expenses and other current assets	**9**	3
Income tax liabilities			
Current	Other current liabilities	**–**	4
Deferred	Deferred income tax liabilities	**934**	743
		934	747

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

	Property, Plant and Equipment	Intangibles	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2013	623	45	(15)	(25)	–	628
Charge (credit) to earnings	96	40	(19)	(4)	6	119
Charge (credit) to other comprehensive income	–	–	–	(5)	1	(4)
December 31, 2014	**719**	**85**	**(34)**	**(34)**	**7**	**743**
Charge (credit) to earnings	**205**	**16**	**(57)**	**(4)**	**30**	**190**
Charge to other comprehensive income	**–**	**–**	**–**	**1**	**–**	**1**
Other	**–**	**–**	**–**	**1**	**(1)**	**–**
December 31, 2015	**924**	**101**	**(91)**	**(36)**	**36**	**934**

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

At the end of 2015, the Company had $336 million in tax losses and credits, which expire on the following dates:

	Non-Capital Losses
2031	17
2033	46
2034	77
2035	196

The Company recorded deferred income tax assets of $91 million for these losses and credits.

8. INVENTORIES

Inventories at December 31 were comprised of:

	2015	2014
Natural gas and fuel in storage	**15**	15
Raw materials and consumables	**15**	44
Work-in-progress	**1**	1
	31	60

For the year ended December 31, 2015, inventories recognized as an expense were $6 million (2014 - $5 million).

No inventories are pledged as security for liabilities.

9. PROPERTY, PLANT AND EQUIPMENT

The Company continues to make significant investment in utility infrastructure in Alberta, particularly in electricity transmission facilities.

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

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2013	11,398	503	1,586	486	13,973
Additions	1,152	45	719	88	2,004
Disposals	(69)	(1)	–	(9)	(79)
Transfer to affiliate	(2)	–	–	–	(2)
December 31, 2014	**12,479**	**547**	**2,305**	**565**	**15,896**
Additions	**2,995**	**47**	**(1,778)**	**47**	**1,311**
Disposals	**(73)**	**(4)**	–	**(13)**	**(90)**
Transfer to affiliate	–	**(10)**	**(4)**	–	**(14)**
December 31, 2015	**15,401**	**580**	**523**	**599**	**17,103**
Accumulated depreciation					
December 31, 2013	2,820	105	–	179	3,104
Depreciation	284	17	–	34	335
Disposals	(68)	–	–	(9)	(77)
Transfer to affiliate	(2)	–	–	–	(2)
December 31, 2014	**3,034**	**122**	–	**204**	**3,360**
Depreciation	**327**	**8**	–	**27**	**362**
Disposals	**(73)**	**(4)**	–	**(13)**	**(90)**
Transfer to affiliate	–	**(4)**	–	–	**(4)**
December 31, 2015	**3,288**	**122**	–	**218**	**3,628**
Net book value					
December 31, 2014	9,445	425	2,305	361	12,536
December 31, 2015	**12,113**	**458**	**523**	**381**	**13,475**

The additions of property, plant and equipment included $95 million of interest capitalized (2014 - $75 million). Interest rates ranged from 4.63 per cent to 5.50 per cent (2014 - 4.28 per cent to 5.60 per cent).

Construction work-in-progress additions are net of transfers of $2,794 million to other property, plant and equipment categories (2014 - $880 million).

10. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights.

A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2013	371	197	9	577
Additions	50	33	–	83
Disposals	(3)	(1)	–	(4)
December 31, 2014	**418**	**229**	**9**	**656**
Additions	**40**	**73**	**–**	**113**
Disposals	**(4)**	**–**	**–**	**(4)**
December 31, 2015	**454**	**302**	**9**	**765**
Accumulated amortization				
December 31, 2013	213	30	2	245
Amortization	29	2	–	31
Disposals	(3)	–	–	(3)
December 31, 2014	**239**	**32**	**2**	**273**
Amortization	**35**	**3**	**1**	**39**
Disposals	**(4)**	**–**	**–**	**(4)**
December 31, 2015	**270**	**35**	**3**	**308**
Net book value				
December 31, 2014	179	197	7	383
December 31, 2015	**184**	**267**	**6**	**457**

11. BANK INDEBTEDNESS AND LINES OF CREDIT

The Company has the following lines of credit that enable it to obtain financing for general business purposes:

			2015			2014
	Total	Used	Available	Total	Used	Available
Long-term committed	**900**	**–**	**900**	900	31	869
Uncommitted	**128**	**46**	**82**	28	4	24
	1,028	**46**	**982**	928	35	893

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

Of the $46 million used at December 31, 2015, $1 million was current bank indebtedness and $45 million represented outstanding letters of credit (2014 - $4 million was current bank indebtedness and $31 million represented outstanding letters of credit).

12. LONG-TERM DEBT

LONG-TERM DEBT

Long-term debt outstanding is shown in the table below.

	Effective Interest Rate	2015	2014
CU Inc. debentures - unsecured	5.046% (2014 - 5.146%)	**6,950**	6,300
(interest is the average effective interest rate weighted by principal amounts outstanding)			
CU Inc. other long-term obligation, due December 2017 - unsecured	2.700%	**3**	3
Less: Deferred financing charges		**(37)**	(34)
		6,916	6,269

Debenture Issuances

During 2015, the Company issued $400 million of 3.964 per cent debentures maturing on July 27, 2045, and $250 million of 4.211 per cent debentures maturing on October 29, 2055.

During 2014, the Company issued $1 billion of 4.085 per cent debentures maturing on September 2, 2044, and $200 million of 4.094 per cent debentures maturing on October 19, 2054.

INTEREST EXPENSE

Interest expense is as follows:

	2015	2014
Long-term debt	**330**	292
Amortization of deferred financing charges	**1**	1
Retirement benefits net interest expense	**3**	3
Other	**6**	9
	340	305
Less: Interest capitalized *(Note 9)*	**(95)**	(75)
	245	230

13. DEFERRED REVENUES

CUSTOMER CONTRIBUTIONS

Customer contributions for extensions to plant are included in deferred revenues and recognized as revenue over the life of the related asset. Changes in deferred customer contribution revenues are summarized below.

	2015	2014
Beginning of year	**1,454**	1,339
Receipt of customer contributions	**177**	155
Amortization	**(44)**	(40)
End of year	**1,587**	1,454

14. CONTINGENCIES

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

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

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

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

15. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

FINANCIAL RISKS

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

CREDIT RISK

For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

Accounts receivable credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

The maximum exposure to credit risk is the carrying value of loans and receivables. The Company does not have a concentration of credit risk with any counterparty. Substantially all of the loans and receivables are from the Company's operations in Alberta.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. The provision for impairment of credit losses was less than $1 million in 2015 and 2014.

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

	2015	2014
30 to 90 days	**1**	3
Greater than 90 days	**1**	1
	2	4

No other impairments have been identified within accounts receivable.

The Company has also entered into guarantee arrangements with Centrica plc. (see Note 14).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. The Company considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt and Class A and B shares. Commercial paper borrowings and short-term bank loans are used under available credit lines to provide flexibility in the timing and amounts of long-term financing. The Company has a policy not to invest any of its cash balances in asset-backed securities.

The Company has contractual obligations in the normal course of business; future minimum undiscounted contractual maturities are as follows:

	2016	2017	2018	2019	2020	2021 and thereafter
Financial Liabilities						
Accounts payable and accrued liabilities	562	–	–	–	–	–
Accounts payable to parent and affiliate companies	12	–	–	–	–	–
Long-term debt:						
Principal	–	153	–	480	100	6,220
Interest expense	348	347	339	321	307	6,276
	922	500	339	801	407	12,496
Commitments						
Operating leases [(1)]	15	13	11	3	3	2
Purchase obligations:						
Operating and maintenance agreements [(2)]	272	268	256	194	26	26
Capital expenditures [(3)]	33	–	–	–	–	–
Other	7	–	–	–	–	–
	327	281	267	197	29	28
	1,249	781	606	998	436	12,524

(1) Operating leases are comprised primarily of long-term leases for office premises and equipment.

(2) Consists of ATCO Gas's transmission service from NOVA Gas Transmission Ltd. and the Company's information technology services contractual obligations.

(3) Consists of various contracts to purchase goods and services with respect to capital expenditures.

FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, accounts receivable from parent and affiliate companies, bank indebtedness, short-term advances from parent company, accounts payable and accrued liabilities, accounts payable to parent and affiliate companies and current portion of long-term debt to parent company approximate carrying value due to their short-term nature.

The fair values of the Company's non-derivative financial instruments measured at other than fair value are as follows:

		2015		2014
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Amortized Cost:				
Long-term advances to affiliate company [(1)]	**130**	**173**	130	178
Financial Liabilities				
Amortized Cost:				
Long-term debt [(1)]	**6,916**	**7,638**	6,269	7,271

(1) Fair values are 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. Long-term debt and long-term advances to affiliate company are classified in Level 2 of the fair value hierarchy.

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following financial assets and financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

			2015			2014
Financial Assets	Gross Amount	Gross Amount Offset	Net Amount Recognized	Gross Amount	Gross Amount Offset	Net Amount Recognized
Accounts receivable	**64**	**(26)**	**38**	60	(27)	33

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

EQUITY PREFERRED SHARES

Authorized and issued

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

Issued:

				2015		2014
	Stated Value *(dollars)*	Redemption Dates	Shares	Amount	Shares	Amount
Cumulative Redeemable Preferred Shares						
4.60% Series 1	25.00	See below	**4,600,000**	**115**	4,600,000	115
3.80% Series 4	25.00	See below	**3,000,000**	**75**	3,000,000	75
Issuance costs				**(3)**		(3)
				187		187

On June 1, 2014, the Company redeemed all outstanding 6.70 per cent Cumulative Redeemable Preferred Shares Series 2 totaling $160 million. The redemption was financed with available cash reserves.

Fair values

The preferred shares have a fair value of $133 million at December 31, 2015 (2014 - $162 million) and are classified in Level 1 of the fair value hierarchy. The fair value was determined using quoted market prices of the same issues.

Redemption privileges

The Series 1 Preferred Shares became redeemable at the option of the Company on June 1, 2012, at the stated value plus a 4 per cent premium per share for the next twelve months plus accrued and unpaid dividends. The redemption premium declines by 1 per cent in each succeeding twelve month period until June 1, 2016.

The Series 4 Preferred Shares may be redeemed by the Company on June 1, 2016, and on June 1 of every fifth year thereafter, in whole or in part at the stated value plus all accrued and unpaid dividends. Holders may elect to convert any or all of their Series 4 Preferred Shares into an equal number of Cumulative Redeemable Preferred Shares Series 5 on June 1, 2016, and on June 1 of every fifth year thereafter. Holders of the Series 5 Preferred Shares will be entitled to receive, as and when declared by the Board, floating rate cumulative preferential cash dividends, payable quarterly at a rate equal to the then current 3-month Government of Canada Treasury Bill yield plus 1.36 per cent. On June 1, 2021, and on June 1 of every fifth year thereafter (Series 5 Conversion Date), holders of the Series 5 Preferred Shares may elect to convert any or all of their Series 5 Preferred Shares back into an equal number of Series 4 Preferred Shares. The Company may redeem the Series 5 Preferred Shares in whole or in part at $25.00 on a Series 5 Conversion Date or at $25.50 on any other date.

EQUITY PREFERRED SHARES TO PARENT COMPANY

Authorized and issued

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

Issued:

			2015		2014	
	Stated Value *(dollars)*	**Redemption Dates**	**Shares**	**Amount**	**Shares**	**Amount**
Perpetual Cumulative Second Preferred Shares						
4.00% Series V	25.00	October 3, 2017	**3,176,578**	**79**	3,176,578	79

The dividends payable on the Series V Preferred Shares are fixed until the redemption date specified above, at which time a new dividend rate may be established by negotiations between the Company and Canadian Utilities Limited.

Fair values

The preferred shares have a fair value of $80 million at December 31, 2015 (2014 - $82 million) and are classified in Level 2 of the fair value hierarchy. The fair value was determined using quoted market prices for similar issues.

Redemption privileges

The preferred shares are redeemable on the date specified above at the option of the Company at the stated value plus accrued and unpaid dividends.

17. CLASS A AND CLASS B SHARES

A reconciliation of the number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2015 is shown below.

	Class A Non-Voting		Class B Common		Total	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2013	3,523,667	576	2,159,667	354	5,683,334	930
Shares issued	46,655	78	28,595	48	75,250	126
December 31, 2014 and 2015	**3,570,322**	**654**	**2,188,262**	**402**	**5,758,584**	**1,056**

Class A and B shares have no par value.

18. DIVIDENDS

Cash dividends declared and paid per share are as follows:

(dollars per share)	**2015**	**2014**
Equity preferred shares		
4.60% Cumulative Redeemable Preferred Shares, Series 1	**1.1500**	1.1500
6.70% Cumulative Redeemable Preferred Shares, Series 2 *(Note 16)*	–	0.8375
3.80% Cumulative Redeemable Preferred Shares, Series 4	**0.9500**	0.9500
Equity preferred shares to parent company		
4.00% Perpetual Cumulative Second Preferred Shares, Series V	**1.0000**	1.0000
Class A and Class B shares	**44.2800**	–

The payment of dividends on the Company's Class A and Class B shares and equity preferred shares is at the discretion of the Board and depends on the financial condition of the Company and other factors.

19. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

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

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

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

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

retained earnings, equity preferred shares, and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

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

The Company's capitalization is as follows:

	2015	2014
Bank indebtedness	**1**	4
Short-term advances from parent corporation	**26**	18
Long-term debt	**6,916**	6,269
Total debt	**6,943**	6,291
Class A and Class B shares	**1,056**	1,056
Retained earnings	**2,944**	2,896
Equity preferred shares	**187**	187
Equity preferred shares to parent company	**79**	79
Total equity	**4,266**	4,218
Total capitalization	**11,209**	10,509
Debt capitalization	**62%**	60%

For the year ended December 31, 2015, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

20. RETIREMENT BENEFITS

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

As of 1997, new employees automatically participate in the defined contribution pension plan.

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

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

THE COMPANY'S BENEFIT PLANS

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

	2015		2014	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	**37**	**5**	37	6
Defined contribution plans cost	**24**	**–**	22	–
Total cost	**61**	**5**	59	6
Less: Capitalized	**35**	**3**	33	3
Net cost recognized	**26**	**2**	26	3
Accrued benefit obligations				
Beginning of year	**44**	**97**	38	80
Defined benefit plan cost	**37**	**5**	37	6
Benefit payments	**(4)**	**(3)**	(4)	(2)
Contributions to defined benefit plans	**(32)**	**–**	(32)	–
Losses (gains) on accrued benefit obligations	**1**	**(4)**	5	13
End of year	**46**	**95**	44	97

WEIGHTED AVERAGE ASSUMPTIONS

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

	2015		2014	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**4.00%**	**4.00%**	4.90%	4.90%
Average compensation increase for the year	**3.25%**	**n/a**	3.25%	n/a
Accrued benefit obligations				
Discount rate at December 31	**4.10%**	**4.10%**	4.00%	4.00%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs (1)	**n/a**	**5.70%**	n/a	5.83%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

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

FUNDING

Employees contribute a percentage of their salary to registered pension plans. The Company contributes its share of contributions for the defined contribution pension plans. The Company also provides the balance of the funding necessary to ensure that benefits will be fully provided for the defined benefit pension plans.

In 2014, an actuarial valuation for funding purposes as of December 31, 2013 was completed for the registered defined benefit pension plans. Based on this valuation, employer contributions for 2015 were $32 million (2014 - $32 million). In 2016 the Company expects to complete a new actuarial valuation for funding purposes as of December 31, 2015; estimated employer contributions for 2016 are $28 million.

The Company's defined benefit contributions for the year ended December 31, 2015 amounted to 85 per cent (2014 - 81 per cent) of the total employer contributions, in aggregate, for the Group Plan.

Employer contributions to the defined contribution plan were $24 million in 2015 (2014 - $22 million).

CANADIAN UTILITIES LIMITED BENEFIT PLANS

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2015.

21. CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2015	2014
Adjustments to reconcile earnings to cash flows from operating activities		
Depreciation and amortization	**389**	355
Income taxes	**199**	138
Contributions by utility customers for extensions to plant *(Note 13)*	**177**	155
Amortization of customer contributions *(Note 13)*	**(44)**	(40)
Net finance costs	**231**	215
Income taxes paid	**(18)**	(14)
Other	**(1)**	3
	933	812

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

	2015	2014
Operating activities		
Accounts receivable	**22**	(11)
Accounts receivable from parent and affiliate companies	**7**	(19)
Inventories	**–**	1
Prepaid expenses and other current assets	**1**	(2)
Accounts payable and accrued liabilities	**14**	22
Accounts payable to parent and affiliate companies	**–**	(17)
Other current liabilities	**8**	–
	52	(26)
Investing activities		
Inventories	**29**	5
Prepaid expenses	**–**	2
Accounts payable and accrued liabilities	**(116)**	45
	(87)	52

22. SUBSIDIARIES

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

Principal Operating Subsidiaries	Principal Activity
ATCO Electric	Distributed generation, electricity distribution, transmission and infrastructure development
ATCO Gas	Natural gas distribution and infrastructure development
ATCO Pipelines	Natural gas transmission and infrastructure development

23. RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH PARENT COMPANY OR ULTIMATE PARENT

Transaction	Recorded As	2015	2014
Rent, aircraft usage and	Other expenses	**17**	16
licensing fees	Property, plant and equipment	**9**	9
Interest on short-term advances	Interest expense	**1**	1

The Company obtains short-term advances from its parent in the normal course of business. These short-term advances are generally due within 30 days or less from the date of the transaction. The interest rates are based on the Bank of Canada overnight rate plus an applicable spread.

TRANSACTIONS WITH AFFILIATE COMPANIES

Transaction	Recorded As	2015	2014
Natural gas storage and transportation, and management and planning services	Revenues	**30**	8
	Prepaids and other current assets	**1**	–
Interest on long-term advances	Interest income	**12**	12
Purchase and storage of natural gas	Fuel costs	**2**	3
Computer services and systems development, call centre and customer billing services	Other expenses	**–**	66
	Property, plant and equipment	**–**	25
	Intangibles	**–**	13
Trailer supply and noise management services	Property, plant and equipment	**1**	1

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

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

Effective November 2015, ATCO Electric transferred land and buildings to ATCO Real Estate Holdings Ltd., a wholly owned subsidiary of Canadian Utilities Limited, the Company's parent. The land and buildings were transfered for cash consideration of $9 million.

RELATED PARTY LOANS AND BALANCES

Transaction	Recorded As	2015	2014
Receivables from related parties	Accounts receivable from parent company	**–**	19
	Accounts receivable from affiliate companies	**23**	11
Long-term advances	Long-term advances to affiliate company	**130**	130
Short-term advances	Short-term advances from parent company	**26**	18
Payables to related parties	Accounts payable to parent company	**12**	8
	Accounts payable to affiliate companies	**–**	4
Equity preferred shares *(Note 16)*	Equity preferred shares to parent company	**79**	79

Receivables and payables with related parties are generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

Long-term advances to affiliate company	Effective Interest Rate	2015	2014
1999 6.80% due August 2019	6.861%	**51**	51
1990 Second Series 11.77% due November 2020	11.903%	**27**	27
1991 Series 9.92% due April 2022	10.063%	**35**	35
1992 Series 9.40% due May 2023	9.511%	**17**	17
		130	130

The long-term advances are unsecured and will be settled in cash. No provisions are held against the advances.

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2015	2014
Salaries and short-term employee benefits	**3**	5
Retirement benefits	**1**	1
Share-based compensation	**(2)**	4
	2	10

Key management personnel comprise members of executive management and the Board, a total of 10 individuals (2014 - 11 individuals).

24. SUBSEQUENT EVENT

On January 7, 2016, the Company declared quarterly eligible dividends of $0.2875 per share on the Series 1 Preferred Shares and $0.2375 per share on the Series 4 Preferred Shares.