



An **ATCO** Company

CU INC. CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

[Original signed by N.C. Southern]

Chair & Chief Executive Officer

[Original signed by D. A. DeChamplain]

Senior Vice President & Chief Financial Officer



February 21, 2018

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, 2017 and December 31, 2016 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, 2017 and December 31, 2016 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.

CONSOLIDATED STATEMENT OF EARNINGS

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2017	2016
Revenues			
Rendering of services		2,626	2,573
Costs and expenses			
Salaries, wages and benefits		(240)	(266)
Energy transmission and transportation		(208)	(197)
Plant and equipment maintenance		(144)	(163)
Fuel costs		(15)	(12)
Purchased power		(74)	(68)
Depreciation and amortization	8,9	(478)	(460)
Franchise fees		(229)	(205)
Property and other taxes		(69)	(60)
Other	4	(210)	(182)
		(1,667)	(1,613)
Operating profit		959	960
Interest income		15	16
Interest expense	5	(354)	(343)
Net finance costs		(339)	(327)
Earnings before income taxes		620	633
Income taxes	6	(169)	(172)
Earnings for the year		451	461

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2017	2016
Earnings for the year		451	461
Other comprehensive (loss) income, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits ⁽¹⁾	11	(4)	3
Comprehensive income for the year		447	464

(1) Net of income taxes of nil for the year ended December 31, 2017 (2016 - income tax expense of \$1 million).

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

December 31

<i>(millions of Canadian Dollars)</i>	Note	2017	2016
ASSETS			
Current assets			
Cash		29	25
Accounts receivable		350	331
Accounts receivable from parent and affiliate companies	23	44	28
Inventories	7	25	24
Prepaid expenses and other current assets		20	17
		468	425
Non-current assets			
Property, plant and equipment	8	14,631	14,040
Intangibles	9	521	485
Long-term advances to affiliate company	23	130	130
Other assets		15	13
Total assets		15,765	15,093
LIABILITIES			
Current liabilities			
Bank indebtedness		3	1
Accounts payable and accrued liabilities		461	427
Accounts payable to parent and affiliate companies	23	41	10
Other current liabilities		19	7
Long-term debt	10	–	150
		524	595
Non-current liabilities			
Deferred income tax liabilities	6	1,200	1,076
Retirement benefit obligations	11	152	142
Deferred revenues	12	1,675	1,652
Other liabilities		5	4
Long-term debt	10	7,567	7,139
Total liabilities		11,123	10,608
EQUITY			
Equity preferred shares	13	187	187
Equity preferred shares to parent company	13,23	79	79
Class A and Class B share owner's equity			
Class A and Class B shares	14	1,056	1,056
Retained earnings		3,320	3,163
		4,376	4,219
Total equity		4,642	4,485
Total liabilities and equity		15,765	15,093

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]

DIRECTOR

[Original signed by R.J. Urwin]

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2015		1,056	266	2,944	–	4,266
Earnings for the year		–	–	461	–	461
Other comprehensive income		–	–	–	3	3
Gains on retirement benefits transferred to retained earnings	11	–	–	3	(3)	–
Dividends	13,14	–	–	(245)	–	(245)
December 31, 2016		1,056	266	3,163	–	4,485
Earnings for the year		–	–	451	–	451
Other comprehensive loss		–	–	–	(4)	(4)
Losses on retirement benefits transferred to retained earnings	11	–	–	(4)	4	–
Dividends	13,14	–	–	(290)	–	(290)
December 31, 2017		1,056	266	3,320	–	4,642

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

		Year Ended December 31	
<i>(millions of Canadian Dollars)</i>	Note	2017	2016
Operating activities			
Earnings for the year		451	461
Adjustments to reconcile earnings to cash flows from operating activities	15	987	999
Changes in non-cash working capital	15	23	(72)
Cash flows from operating activities		1,461	1,388
Investing activities			
Additions to property, plant and equipment		(1,010)	(966)
Proceeds on disposal of property, plant and equipment		–	7
Additions to intangibles		(80)	(74)
Changes in non-cash working capital	15	(5)	(111)
Other		1	–
Cash flows used in investing activities		(1,094)	(1,144)
Financing activities			
Issue of long-term debt	10	430	375
Repayment of long-term debt		(150)	–
Dividends paid on equity preferred shares	13	(10)	(10)
Dividends paid to Class A and Class B share owner	14	(280)	(235)
Interest paid		(363)	(350)
Interest received from affiliate company	23	12	12
Long-term debt issue costs		(3)	(3)
Other		(1)	–
Cash flows used in financing activities		(365)	(211)
Increase in cash position		2	33
Beginning of year		24	(9)
End of year	15	26	24

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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

1. THE COMPANY AND ITS OPERATIONS

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

CU Inc. is engaged in the following business activities:

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

The consolidated financial statements include the accounts of CU Inc. and its subsidiaries (see Note 20). In these financial statements, "the Company" means CU Inc. and its subsidiaries.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

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

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 21, 2018.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 24.

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, assumptions and estimates are described in Note 19.

3. SEGMENTED INFORMATION

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

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

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

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

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

SEGMENTED RESULTS

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

	2017	2016	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external			1,272	1,354	-	-	2,626
			1,370	1,203	-	-	2,573
Revenues - intersegment			1	1	-	(2)	-
			-	-	-	-	-
Revenues			1,273	1,355	-	(2)	2,626
			1,370	1,203	-	-	2,573
Operating expenses ⁽¹⁾			(464)	(727)	-	2	(1,189)
			(441)	(712)	-	-	(1,153)
Depreciation and amortization			(303)	(175)	-	-	(478)
			(289)	(171)	-	-	(460)
Net finance costs			(225)	(114)	-	-	(339)
			(219)	(108)	-	-	(327)
Earnings before income taxes			281	339	-	-	620
			421	212	-	-	633
Income taxes			(77)	(92)	-	-	(169)
			(114)	(58)	-	-	(172)
Earnings for the year			204	247	-	-	451
			307	154	-	-	461
Adjusted earnings			330	212	-	-	542
			317	184	-	-	501
Total assets			9,952	5,685	138	(10)	15,765
			9,883	5,157	134	(81)	15,093
Capital expenditures ⁽²⁾			438	669	-	-	1,107
			470	588	-	-	1,058

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

(2) Includes additions to property, plant and equipment and intangibles and \$17 million of interest capitalized during construction for the year ended December 31, 2017 (2016 - \$18 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class A and Class B Shares after adjusting for:

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

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

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

2017					
2016	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	330	212	–	–	542
	317	184	–	–	501
Restructuring costs	–	–	–	–	–
	(4)	(5)	–	–	(9)
Rate-regulated activities	(131)	30	–	–	(101)
	(11)	(30)	–	–	(41)
Dividends on equity preferred shares of the Company	5	5	–	–	10
	5	5	–	–	10
Earnings for the year	204	247	–	–	451
	307	154	–	–	461

Restructuring costs

In 2016, the Company recorded restructuring costs of \$9 million, after-tax, that were not in the normal course of business. These costs were primarily related to severance costs associated with staff reductions and lease termination costs.

Rate-regulated activities

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

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

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

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

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

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

	2017	2016
<i>Additional revenues billed in current period</i>		
Future removal and site restoration costs ⁽¹⁾	61	60
<i>Revenues to be billed in future periods</i>		
Deferred income taxes ⁽²⁾	(99)	(87)
Impact of warmer temperatures ⁽³⁾	(4)	(28)
<i>Regulatory decisions received</i>	17	18
<i>Settlement of regulatory decisions and other items</i> ⁽⁴⁾	(76)	(4)
	(101)	(41)

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

(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. Revenues above or below the normal in the current period are refunded to or recovered from customers in future periods.

(4) In 2017, ATCO Electric recorded an increase in adjusted earnings of \$33 million in relation to settlement of final 2015-2017 General Tariff Application rate and \$27 million in relation to refund of previously collected capitalized pension 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 2017 and 2016 are provided below.

Decision	Timing	Amount	Description
1. 2013-2014 Deferral Accounts Application	September 2017	(7)	The Alberta Utilities Commission (AUC) issued a decision on ATCO Electric Transmission's 2013 to 2014 Deferral Accounts Application. The Application included \$824 million of capital expenditures for the 35 direct-assigned AESO projects that went into service in 2013 and 2014. While the decision approved the inclusion of the vast majority of the capital expenditures into rate base, it resulted in a decrease to adjusted earnings, which relates to years prior to 2017.
2. ATCO Electric General Tariff Application (GTA) Compliance Filing	June 2017	(10)	The AUC issued a decision on ATCO Electric's Compliance Filing relating to its 2015 to 2017 General Tariff Application. The decision adjusted ATCO Electric's 2016 and 2017 forecast allocation of labour costs between operating and maintenance expense and capital.
3. ATCO Electric GTA	August 2016	(19)	The GTA decision covers the operations of ATCO Electric Transmission for 2015 to 2017 and resulted in final rates that were lower than the approved interim rates from 2015, mainly due to lower approved operating costs.
4. 2016-2017 Generic Cost of Capital Decision (GCOC)	August 2016	1	The GCOC decision established the return on equity (ROE) and deemed common equity ratios for the Alberta utilities for 2016 and 2017. For ATCO Electric Distribution and ATCO Gas, the 2016 GCOC decision only applies to the K factor mechanism and does not apply to the base performance based regulation formula.

4. OTHER COSTS AND EXPENSES

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

5. INTEREST EXPENSE

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

	2017	2016
Long-term debt	363	350
Retirement benefits net interest expense	3	3
Amortization of deferred financing charges	1	1
Other	4	7
	371	361
Less: interest capitalized (<i>Note 8</i>)	(17)	(18)
	354	343

Borrowing costs capitalized to property, plant and equipment during 2017 were calculated by applying a weighted average interest rate of 4.84 per cent to expenditures on qualifying assets (2016 - 4.95 per cent).

6. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2017	2016
Current income tax expense		
Expenses for the year	44	32
Adjustment in respect of prior years	-	(1)
	44	31
Deferred income tax expense		
Reversal of temporary differences	125	139
Adjustment in respect of prior years	-	2
	125	141
	169	172

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

	2017		2016	
Earnings before income taxes	620	%	633	%
Income taxes, at statutory rates	167	27.0	171	27.0
Other	2	0.3	1	0.2
	169	27.3	172	27.2

INCOME TAX ASSETS AND LIABILITIES

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

Balance Sheet Presentation		2017	2016
Income tax assets			
Current	Prepaid expenses and other current assets	-	5
Income tax liabilities			
Current	Other current liabilities	14	-
Deferred	Deferred income tax liabilities	1,200	1,076

DEFERRED INCOME TAX

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2015	924	101	(91)	(36)	36	934
Charge (credit) to earnings	120	15	15	(1)	(8)	141
Charge to other comprehensive income	-	-	-	1	-	1
December 31, 2016	1,044	116	(76)	(36)	28	1,076
Charge (credit) to earnings	132	(18)	3	(8)	16	125
Other	-	-	-	(1)	-	(1)
December 31, 2017	1,176	98	(73)	(45)	44	1,200

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

At the end of 2017, the Company had \$270 million of non-capital tax losses and credits which expire between 2032 and 2037. The Company recognized deferred income tax assets of \$73 million for these losses and credits.

7. INVENTORIES

Inventories at December 31 are comprised of:

	2017	2016
Natural gas and fuel in storage	9	9
Raw materials and consumables	13	14
Work-in-progress	3	1
	25	24

For the year ended December 31, 2017, inventories recognized as an expense were \$3 million (2016 - \$5 million).

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	Land and Buildings	Construction Work-in- Progress	Other	Total
Cost					
December 31, 2015	15,401	580	523	599	17,103
Additions	354	2	690	1	1,047
Transfers	688	8	(736)	40	-
Retirements and disposals	(153)	(5)	(1)	(16)	(175)
Transfer to affiliate	-	(5)	-	-	(5)
December 31, 2016	16,290	580	476	624	17,970
Additions	311	3	719	3	1,036
Transfers	669	36	(741)	36	-
Retirements and disposals	(126)	(9)	(15)	(15)	(165)
December 31, 2017	17,144	610	439	648	18,841
Accumulated depreciation					
December 31, 2015	3,288	122	-	218	3,628
Depreciation	380	15	-	31	426
Retirements and disposals	(101)	(5)	-	(16)	(122)
Transfer to affiliate	-	(2)	-	-	(2)
December 31, 2016	3,567	130	-	233	3,930
Depreciation	385	18	-	27	430
Retirements and disposals	(126)	(9)	-	(15)	(150)
December 31, 2017	3,826	139	-	245	4,210
Net book value					
December 31, 2016	12,723	450	476	391	14,040
December 31, 2017	13,318	471	439	403	14,631

The additions to property, plant and equipment included \$17 million of interest capitalized during construction for the year ended December 31, 2017 (2016 - \$18 million).

In 2016, ATCO Pipelines and NOVA Gas Transmission Ltd. exchanged ownership of certain natural gas pipelines and related facilities as part of the integration of natural gas transmission service in Alberta. The net book value of assets disposed of was \$51 million compared to assets acquired of \$65 million, resulting in an increase in the net book value of utility, transmission and distribution assets of \$14 million. The net assets acquired were settled in cash.

9. 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, 2015	454	302	9	765
Additions	51	24	-	75
Retirements	-	(2)	-	(2)
December 31, 2016	505	324	9	838
Additions	57	23	-	80
Retirements	(20)	(1)	-	(21)
December 31, 2017	542	346	9	897
Accumulated amortization				
December 31, 2015	270	35	3	308
Amortization	41	4	-	45
December 31, 2016	311	39	3	353
Amortization	39	5	-	44
Retirements	(20)	(1)	-	(21)
December 31, 2017	330	43	3	376
Net book value				
December 31, 2016	194	285	6	485
December 31, 2017	212	303	6	521

10. LONG-TERM DEBT

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

	Effective Interest Rate	2017	2016
CU Inc. debentures - unsecured	4.881% (2016 - 4.982%)	7,605	7,325
<i>(interest is the average effective interest rate weighted by principal amounts outstanding)</i>			
CU Inc. other long-term obligation, due December 2019 - unsecured ⁽¹⁾	3.200%	3	3
Less: deferred financing charges		(41)	(39)
		7,567	7,289
Less: amounts due within one year		-	(150)
		7,567	7,139

(1) During 2017, the expiry date of the CU Inc. other long-term obligation was extended from June 2018 to December 2019.

Debenture Issuances

During 2017, the Company issued \$430 million of 3.548 per cent debentures maturing on November 22, 2047 (2016 - \$375 million of 3.763 per cent debentures maturing on November 19, 2046).

11. RETIREMENT BENEFITS

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

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

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2017.

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

THE COMPANY'S BENEFIT PLANS

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

	2017		2016	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	30	5	29	5
Defined contribution plans cost	20	–	21	–
Total cost	50	5	50	5
Less: Capitalized	30	3	28	3
Net cost recognized	20	2	22	2
Accrued benefit obligations				
Beginning of year	47	95	46	95
Defined benefit plan cost	30	5	29	5
Benefit payments	(4)	(3)	(4)	(3)
Contributions to defined benefit plans	(22)	–	(22)	–
Actuarial losses (gains)	3	1	(2)	(2)
End of year	54	98	47	95

WEIGHTED AVERAGE ASSUMPTIONS

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

	2017		2016	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	3.90%	3.90%	4.10%	4.10%
Average compensation increase for the year ⁽¹⁾	1.50%	n/a	1.50%	n/a
Accrued benefit obligations				
Discount rate at December 31	3.60%	3.60%	3.90%	3.90%
Long-term inflation rate	2.00%	n/a	2.00%	n/a
Health care cost trend rate:				
Drug costs ⁽²⁾	n/a	5.43%	n/a	5.57%
Other medical costs	n/a	4.50%	n/a	4.50%
Dental costs	n/a	4.00%	n/a	4.00%

(1) The assumed average compensation increase is 1.50 per cent for 2017 and 2.50 per cent thereafter.

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

FUNDING

An actuarial valuation for funding purposes as of December 31, 2015 was completed in 2016 for the registered defined benefit pension plans. The estimated contribution for 2018 is \$22 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2018.

12. DEFERRED REVENUES

Deferred revenues from customer contributions and other sources are as follows:

	2017	2016
Customer contributions	1,649	1,638
Other	26	14
	1,675	1,652

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.

	2017	2016
Beginning of year	1,638	1,587
Receipt of customer contributions	55	98
Amortization	(44)	(47)
End of year	1,649	1,638

13. 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	2017		2016	
	Shares	Amount	Shares	Amount
Cumulative Redeemable Preferred Shares				
4.60% Series 1	4,600,000	115	4,600,000	115
2.243% Series 4 ⁽¹⁾	3,000,000	75	3,000,000	75
Issuance costs		(3)		(3)
		187		187

(1) Effective June 1, 2016, the annual dividend rate for the Series 4 Preferred Shares was reset to 2.243 per cent for the five-year period commencing June 1, 2016. Prior to June 1, 2016, the annual dividend rate was 3.80 per cent.

Rights and privileges

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

(1) Plus accrued and unpaid dividends.

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

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

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

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

EQUITY PREFERRED SHARES TO PARENT COMPANY

Authorized and issued

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

Issued	2017		2016	
	Shares	Amount	Shares	Amount
Perpetual Cumulative Second Preferred Shares				
4.00% Series V ⁽¹⁾	3,176,578	79	3,176,578	79

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

Rights and Privileges

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

DIVIDENDS

Cash dividends declared and paid per share are as follows:

<i>(dollars per share)</i>	2017	2016
Cumulative Redeemable Preferred Shares		
4.60% Series 1	1.1500	1.1500
2.243% Series 4	0.5608	0.7554
Perpetual Cumulative Second Preferred Shares		
4.00% Series V	1.0000	1.0000

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

On January 11, 2018, the Company declared first quarter eligible dividends of \$0.28750 per Series 1 Preferred Share and \$0.1401875 per Series 4 Preferred Share.

14. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2017 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, 2016 and 2017	3,570,322	654	2,188,262	402	5,758,584	1,056

Class A and B shares have no par value.

The Company declared and paid cash dividends of \$48.63 per Class A non-voting share and Class B common share during 2017 (2016 - \$40.81). The payment and amount of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

15. 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.

	2017	2016
Depreciation and amortization	478	460
Income taxes	169	172
Contributions by utility customers for extensions to plant	55	98
Amortization of customer contributions	(44)	(47)
Net finance costs	339	327
Income taxes paid	(25)	(27)
Other	15	16
	987	999

CHANGES IN NON-CASH WORKING CAPITAL

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

	2017	2016
Operating activities		
Accounts receivable	(19)	(58)
Accounts receivable from parent and affiliate companies	(16)	(5)
Inventories	1	3
Prepaid expenses and other current assets	(7)	(2)
Accounts payable and accrued liabilities	36	(5)
Accounts payable to parent and affiliate companies	31	(2)
Other current liabilities	(3)	(3)
	23	(72)
Investing activities		
Inventories	(1)	1
Accounts payable and accrued liabilities	(4)	(112)
	(5)	(111)

LONG-TERM DEBT RECONCILIATION

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

	Long-term debt
Liabilities from financing activities	
December 31, 2015	6,916
Net issue of debt	375
Long-term debt issue costs	(3)
Amortization of deferred finance charges	1
December 31, 2016	7,289
Net issue of debt	280
Long-term debt issue costs	(3)
Amortization of deferred finance charges	1
December 31, 2017	7,567

CASH POSITION

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

	2017	2016
Cash	29	25
Bank indebtedness	(3)	(1)
	26	24

16. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

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

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

Recurring Measurements	Note	2017		2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Long-term advances to affiliate company	23	130	156	130	166
Financial Liabilities					
Long-term debt	10	7,567	8,737	7,289	8,193

OFFSETTING FINANCIAL ASSETS

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

Financial Assets	2017			2016		
	Gross Amount	Gross Amount Offset	Net Amount Recognized	Gross Amount	Gross Amount Offset	Net Amount Recognized
Accounts receivable	100	(65)	35	66	(19)	47

17. RISK MANAGEMENT

FINANCIAL RISKS

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

operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

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

MARKET RISK

Foreign exchange risk

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

CREDIT RISK

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

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

The Company does not have a concentration of credit risk with any counterparty. Accounts receivable credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations. At December 31, 2017, the Company held \$205 million in letters of credit for certain counterparty receivables (2016 - \$208 million). The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 21).

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 2017 and 2016.

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

	2017	2016
30 to 90 days	5	1
Greater than 90 days	1	1
	6	2

No other impairments have been identified within accounts receivable.

LIQUIDITY RISK

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

Lines of credit

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

	2017			2016		
	Total	Used	Available	Total	Used	Available
Long-term committed	900	–	900	900	–	900
Uncommitted	128	78	50	128	59	69
	1,028	78	950	1,028	59	969

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

Lines of credit utilized at December 31 are comprised of:

	2017	2016
Current bank indebtedness	3	1
Letters of credit	75	58
	78	59

Commercial paper

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

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2017, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2018	2019	2020	2021	2022	2023 and thereafter
Bank indebtedness	3	–	–	–	–	–
Accounts payable and accrued liabilities	461	–	–	–	–	–
Accounts payable to parent and affiliate companies	41	–	–	–	–	–
Long-term debt:						
Principal	–	483	100	160	125	6,740
Interest expense	368	351	337	325	309	6,423
	873	834	437	485	434	13,163

18. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

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

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

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

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

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

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

	2017	2016
Bank indebtedness	3	1
Long-term debt	7,567	7,289
Total debt	7,570	7,290
Class A and Class B shares	1,056	1,056
Retained earnings	3,320	3,163
Equity preferred shares	187	187
Equity preferred shares to parent company	79	79
Total equity	4,642	4,485
Total capitalization	12,212	11,775
Debt capitalization	62%	62%

For the year ended December 31, 2017, 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.

19. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments, estimates and assumptions 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. 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 cash generating unit (CGU) to determine if an impairment loss is to be recognized. These estimates are based on assumptions, such as the price for which the assets in the CGU could be obtained or future cash flows that will be produced by the CGU, discounted at an appropriate rate. Subsequent changes to these estimates or assumptions could significantly impact the carrying value of the assets in the CGU.

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 11.

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.

20. SUBSIDIARIES

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

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

21. CONTINGENCIES

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

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

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

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

22. COMMITMENTS

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

	2018	2019	2020	2021	2022	2023 and thereafter
Operating leases	12	7	6	6	3	18
Purchase obligations:						
Operating and maintenance agreements	239	230	87	84	79	156
Capital expenditures	46	-	-	-	-	-
Other	6	-	-	-	-	-
	303	237	93	90	82	174

23. RELATED PARTY TRANSACTIONS

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

TRANSACTIONS WITH PARENT COMPANY OR ULTIMATE PARENT

Transaction	Recorded As	2017	2016
Rent, aircraft usage and licensing fees	Other expenses	20	19
Capital projects and building rent	Property, plant and equipment	8	8
Interest on short-term advances ⁽¹⁾	Interest expense	1	1
Equity preferred share dividends (Note 13)	Retained earnings	3	3

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

TRANSACTIONS WITH AFFILIATE COMPANIES

Transaction	Recorded As	2017	2016
Natural gas and electricity distribution, and management, planning and engineering services	Revenues	105	60
	Deferred revenues	(12)	(14)
Interest on long-term advances	Interest income	12	12
Purchase of natural gas	Fuel costs	3	2
Office services	Other expenses	4	-

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

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

In August 2016, ATCO Gas 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 transferred for cash consideration of \$3 million.

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2017	2016
Receivables from related parties ⁽¹⁾	Accounts receivable from parent company	14	1
	Accounts receivable from affiliate companies	30	27
Long-term advances ⁽²⁾	Long-term advances to affiliate company	130	130
Payables to related parties ⁽¹⁾	Accounts payable to parent company	40	9
	Accounts payable to affiliate companies	1	1
Equity preferred shares (Note 13)	Equity preferred shares to parent company	79	79

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

(2) The effective interest rate on long-term advances, weighted by principal amounts outstanding, was 9.102 per cent in 2017 and 2016. The advances are unsecured and will be settled in cash. No provisions are held against the advances.

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2017	2016
Salaries and short-term employee benefits	7	3
Retirement benefits	1	1
Share-based compensation	1	4
	9	8

Key management personnel comprise members of executive management and the Board, a total of 13 individuals (2016 - 10 individuals).

24. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

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

REVENUE RECOGNITION

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 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.

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	28 to 65 years	49 years	2.0%
Electricity distribution equipment	10 to 103 years	40 years	2.5%
Gas transmission equipment	3 to 80 years	42 years	2.4%
Gas distribution plant and equipment	10 to 57 years	42 years	2.4%
Buildings	1 to 55 years	28 years	3.6%
Other plant, equipment and machinery	5 to 50 years	31 years	3.2%

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

INTANGIBLES

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

PROVISIONS

The Company recognizes provisions when:

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

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

CONTINGENCIES

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

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

Offsetting financial instruments

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

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

Derecognition of financial instruments

Financial assets are derecognized:

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

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

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, the Company assesses whether there is 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, 2015.

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

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in OPEB and non-registered group defined benefit pension plans. These plans are administered on a combined basis, and the Company accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit

method and reflect management's best estimates of wage and salary increases, age at retirement and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period.

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

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

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new or amended standards or interpretations issued by the IASB or IFRIC do not need to be adopted in the current period. 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	Effective Date
IFRS 15 <i>Revenue from Contracts with Customers</i>	<p>This standard replaces IAS 18 <i>Revenue</i> and related interpretations. 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 completed as of the effective date. The Company has applied the full retrospective transition method.</p> <p>The Company is party to numerous contracts with customers that will be impacted by the new standard. Positions papers on issue-specific differences in the new standard are complete.</p> <p>Transitional adjustments are not expected to have material effect on the Company's financial statements.</p>	Effective for annual periods on or after January 1, 2018.
IFRS 9 (2014) Financial Instruments	<p>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.</p> <p>The Company early adopted two out of three components of this standard (Classification and Measurement and Hedge Accounting) on January 1, 2015. The Company adopted the final component, Impairments, on January 1, 2018. This component includes a new expected credit loss model for calculating impairment on financial assets and replaces the current incurred loss impairment model. The new standard will increase bad debt provisioning for all trade receivables, however the impact is not expected to be material due to current provisioning procedures, the low credit risk with current counterparties, and collateral and parental guarantee arrangements in place for the Company's significant receivables.</p>	Effective for annual periods on or after January 1, 2018.
IFRS 16 Leases	<p>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. Lessor accounting under the new standard retains similar classifications to the previous guidance, however the new standard may change the accounting treatment of certain components of lessor contracts and sub-leasing arrangements. The Company is currently assessing the impact of the new standard.</p>	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.