CANADIAN UTILITIES LIMITED
An ATCO Company

CANADIAN UTILITIES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

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CONSOLIDATED STATEMENTS OF EARNINGS

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

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

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

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

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

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

(5) Net of income taxes of nil.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

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

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

SEPTEMBER 30, 2019

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

1. THE COMPANY AND ITS OPERATIONS

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

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

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

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

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

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

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

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

BASIS OF MEASUREMENT

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

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

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

3. CHANGE IN ACCOUNTING POLICY

LEASES

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

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

Practical expedients

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

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

The Company as a lessee

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

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

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

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

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

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

Significant accounting estimates and assumptions

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

The Company as a lessor

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

Sub-surface Rights

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

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

IMPACT OF CHANGES IN ACCOUNTING POLICY

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

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

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

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

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

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

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

4. SEGMENTED INFORMATION

SEGMENTED RESULTS

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

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

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

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

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

ADJUSTED EARNINGS

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

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

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

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

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

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

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

Gain on sale of operations

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

Transaction costs

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

Restructuring and other costs

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

Proceeds from termination of Power Purchase Arrangement

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

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

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

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

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

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

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

Rate-regulated activities

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulatory decisions received

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

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

IT Common Matters decision

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

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

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

Other

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

5. REVENUES

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

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

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

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

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

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

6. INCOME TAXES

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

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

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

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

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

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

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

7. EARNINGS PER SHARE

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

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

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

9. RIGHT-OF-USE ASSETS

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

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

10. SHORT-TERM DEBT

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

11. LONG-TERM DEBT

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

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

12. NON-RECOURSE LONG-TERM DEBT

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

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

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

13. LEASE LIABILITIES

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

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

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

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

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

14. EQUITY PREFERRED SHARES

Cash dividends declared and paid per share are as follows:

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

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

15. CLASS A AND CLASS B SHARES

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

DIVIDENDS

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

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

DIVIDEND REINVESTMENT PROGRAM

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

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

16. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

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

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

CASH POSITION

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

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

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

17. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

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

FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

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

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

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

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

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

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

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

Notional and maturity summary

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

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

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

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

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

18. SALE OF OPERATIONS

Sale of the Canadian fossil fuel-based electricity generation portfolio

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

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

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

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

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

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

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

(millions of Canadian Dollars)

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

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

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

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

19. DISPOSAL GROUP AND ASSETS CLASSIFIED AS HELD FOR SALE

Alberta PowerLine assets classified as held for sale

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

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

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

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

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

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

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