ATCO LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2019

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CONSOLIDATED STATEMENTS OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Three Months Ended March 31 2019	 2018
Revenues	5	**1,324**	1,500
Costs and expenses			
Salaries, wages and benefits		**(128)**	(132)
Energy transmission and transportation		**(52)**	(44)
Plant and equipment maintenance		**(60)**	(53)
Fuel costs		**(78)**	(62)
Purchased power		**(64)**	(38)
Service concession arrangement costs		**(95)**	(368)
Materials and consumables		**(77)**	(62)
Depreciation and amortization	8,9	**(167)**	(160)
Franchise fees		**(74)**	(79)
Property and other taxes		**(49)**	(45)
Unrealized gains (losses) on mark-to-market forward commodity contracts		**8**	(24)
Other		**(67)**	(78)
		(903)	(1,145)
Earnings from investment in associate company		**4**	–
Earnings from investment in joint ventures		**8**	8
Operating profit		**433**	363
Interest income		**6**	10
Interest expense		**(129)**	(124)
Net finance costs		**(123)**	(114)
Earnings before income taxes		**310**	249
Income taxes		**(84)**	(64)
Earnings for the period		**226**	185
Earnings attributable to:			
Class I and Class II Shares		**112**	90
Non-controlling interests		**114**	95
		226	185
Earnings per Class I and Class II Share	6	**$0.98**	$0.78
Diluted earnings per Class I and Class II Share	6	**$0.98**	$0.78

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Three Months Ended March 31 **2019**	 **2018**
Earnings for the period	**226**	185
Other comprehensive loss, net of income taxes		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits [(1)]	**(79)**	(21)
Items that are or may be reclassified subsequently to earnings:		
Cash flow hedges [(2)]	**(5)**	(7)
Cash flow hedges reclassified to earnings [(3)]	**2**	–
Foreign currency translation adjustment [(3)]	**(18)**	27
	(21)	20
Other comprehensive loss	**(100)**	(1)
Comprehensive income for the period	**126**	184
Comprehensive income attributable to:		
Class I and Class II Shares	**52**	93
Non-controlling interests	**74**	91
	126	184

(1) Net of income taxes of $29 million for the three months ended March 31, 2019 (2018 - $8 million).

(2) Net of income taxes of $2 million for the three months ended March 31, 2019 (2018 - $2 million).

(3) Net of income taxes of nil.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	March 31 2019	December 31 2018
ASSETS			
Current assets			
Cash and cash equivalents	14	**701**	691
Accounts receivable and contract assets		**787**	745
Finance lease receivables		**19**	15
Inventories		**84**	66
Income taxes receivable		**19**	56
Restricted project funds	7	**307**	339
Receivable under service concession arrangement		**92**	67
Prepaid expenses and other current assets		**101**	118
		2,110	2,097
Non-current assets			
Property, plant and equipment	8	**17,919**	17,865
Intangibles		**671**	672
Right-of-use assets	3, 9	**103**	–
Goodwill		**82**	82
Investment in joint ventures		**242**	240
Investment in associate company		**474**	491
Finance lease receivables		**388**	380
Deferred income tax assets		**82**	85
Receivable under service concession arrangement		**1,430**	1,329
Other assets		**98**	103
Total assets		**23,599**	23,344
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**963**	921
Asset retirement obligations and other provisions		**22**	41
Lease liabilities	3, 12	**16**	–
Other current liabilities		**56**	103
Short-term debt	10	**400**	175
Long-term debt	11	**368**	488
Non-recourse long-term debt		**20**	20
		1,845	1,748
Non-current liabilities			
Deferred income tax liabilities		**1,412**	1,399
Asset retirement obligations and other provisions		**143**	139
Retirement benefit obligations		**495**	384
Customer contributions		**1,808**	1,798
Lease liabilities	3, 12	**88**	–
Other liabilities		**157**	144
Long-term debt	11	**8,824**	8,909
Non-recourse long-term debt		**1,378**	1,381
Total liabilities		**16,150**	15,902
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II shares	13	**170**	169
Contributed surplus		**11**	11
Retained earnings		**3,559**	3,535
Accumulated other comprehensive income		**22**	40
		3,762	3,755
Non-controlling interests		**3,687**	3,687
Total equity		**7,449**	7,442
Total liabilities and equity		**23,599**	23,344

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total	Non-Controlling Interests	Total Equity
December 31, 2017		167	10	3,355	(2)	3,530	3,579	7,109
Earnings for the period		–	–	90	–	90	95	185
Other comprehensive loss		–	–	–	3	3	(4)	(1)
Losses on retirement benefits transferred to retained earnings		–	–	(11)	11	–	–	–
Shares issued		–	–	–	–	–	16	16
Dividends	13	–	–	(43)	–	(43)	(69)	(112)
Share-based compensation		1	–	1	–	2	(1)	1
Changes in ownership interest in subsidiary company [(1)]		–	–	6	–	6	(6)	–
March 31, 2018		168	10	3,398	12	3,588	3,610	7,198
December 31, 2018		169	11	3,535	40	3,755	3,687	7,442
Earnings for the period		**–**	**–**	**112**	**–**	**112**	**114**	**226**
Other comprehensive loss		**–**	**–**	**–**	**(60)**	**(60)**	**(40)**	**(100)**
Losses on retirement benefits transferred to retained earnings		**–**	**–**	**(42)**	**42**	**–**	**–**	**–**
Dividends	13	**–**	**–**	**(46)**	**–**	**(46)**	**(74)**	**(120)**
Share-based compensation		**1**	**–**	**–**	**–**	**1**	**–**	**1**
March 31, 2019		**170**	**11**	**3,559**	**22**	**3,762**	**3,687**	**7,449**

(1) The changes in ownership interest in subsidiary company are due to Canadian Utilities Limited's dividend reinvestment program and share-based compensation plans.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2019	2018
Operating activities			
Earnings for the period		**226**	185
Adjustments to reconcile earnings to cash flows from operating activities	14	**353**	356
Changes in non-cash working capital		**(95)**	154
Change in receivable under service concession arrangement		**(126)**	(399)
Cash flows from operating activities		**358**	296
Investing activities			
Additions to property, plant and equipment		**(218)**	(267)
Proceeds on disposal of property, plant and equipment		**1**	–
Additions to intangibles		**(16)**	(15)
Acquisition, net of cash acquired		**–**	(70)
Investment in equity interest in associate company		**(9)**	–
Investment in joint ventures		**–**	(6)
Changes in non-cash working capital		**(14)**	(25)
Other		**–**	(4)
Cash flows used in investing activities		**(256)**	(387)
Financing activities			
Net issue of short-term debt	10	**225**	90
Issue of long-term debt		**–**	140
Repayment of long-term debt	11	**(201)**	(58)
Release of restricted project funds		**105**	216
Repayment of non-recourse long-term debt		**(3)**	(4)
Repayment of lease liabilities	12	**(4)**	–
Issue of shares by subsidiary companies		**–**	1
Issue of Class I Shares		**1**	3
Dividends paid to Class I and Class II Share owners		**(46)**	(43)
Dividends paid to non-controlling interests		**(74)**	(53)
Interest paid		**(106)**	(103)
Other		**14**	2
Cash flows (used in) from financing activities		**(89)**	191
Increase in cash position (1)		**13**	100
Foreign currency translation		**(3)**	4
Beginning of period		**691**	494
End of period	14	**701**	598

(1) Cash position includes $85 million which is not available for general use by the Company (2018 - $102 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2019

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

1. THE COMPANY AND ITS OPERATIONS

ATCO Ltd. was incorporated under the laws of the province of Alberta and is 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. ATCO Ltd. is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

ATCO Ltd. is engaged in the following global business activities:

- Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management);
- Canadian Utilities Limited, including:
    - 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);
    - Retail Energy (included in Corporate & Other segment); and
- Neltume Ports (ports and transportation logistics).

The unaudited interim consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries. The statements also include the accounts of a proportionate share of the Company's investments in joint operations, its equity-accounted investments in joint ventures and its equity-accounted investment in associate company. In these financial statements, "the Company" means ATCO Ltd., its subsidiaries, joint arrangements and the associate company.

Principal operating subsidiaries are:

- Canadian Utilities Limited (52.2 per cent owned) and its subsidiaries; and
- ATCO Structures & Logistics; and its subsidiaries.

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 April 24, 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, the timing of utility rate decisions and changes in market conditions for workforce housing and space rentals operations.

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*.

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 $107 million of right-of-use assets and $107 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	–	107	107
Total assets		23,344	107	23,451
LIABILITIES				
Current liabilities				
Lease liabilities	11	–	18	18
Non-current liabilities				
Lease liabilities	11	–	89	89
Total liabilities		15,902	107	16,009
EQUITY				
Class I and Class II Share owners' equity				
Class I and Class II Shares		169	–	169
Contributed surplus		11	–	11
Retained earnings		3,535	–	3,535
Accumulated other comprehensive income		40	–	40
		3,755	–	3,755
Non-controlling interests		3,687	–	3,687
Total equity		7,442	–	7,442
Total liabilities and equity		23,344	107	23,451

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	101
Adjustment to reflect discounting of the operating lease commitments at December 31, 2018, using the weighted average incremental borrowing rate	(10)
Lease liabilities at January 1, 2019, before exemptions and other adjustments	91
Exemptions applied upon recognition of lease liabilities:	
Short-term leases	(2)
Recognition of the lease term extension option (1)	18
Lease liabilities recognized at January 1, 2019	107

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

4. SEGMENTED INFORMATION

Results by operating segment for the three months ended March 31 are shown below.

2019 2018	**Structures & Logistics**	**Canadian Utilities Limited**				**Neltume Ports**	**Corporate & Other**	**Consolidated**
		Electricity	**Pipelines & Liquids**	**Corporate & Other**	**Consolidated**			
Revenues - external	**138**	**681**	**448**	**60**	**1,189**	**–**	**(3)**	**1,324**
	115	888	468	29	1,385	–	–	1,500
Revenues - intersegment	**–**	**9**	**29**	**(38)**	**–**	**–**	**–**	**–**
	–	11	17	(28)	–	–	–	–
Revenues	**138**	**690**	**477**	**22**	**1,189**	**–**	**(3)**	**1,324**
	115	899	485	1	1,385	–	–	1,500
Operating expenses (1)	**(122)**	**(358)**	**(247)**	**(19)**	**(624)**	**–**	**10**	**(736)**
	(107)	(642)	(236)	(6)	(884)	–	6	(985)
Depreciation and amortization	**(9)**	**(92)**	**(63)**	**(2)**	**(157)**	**–**	**(1)**	**(167)**
	(7)	(92)	(59)	–	(151)	–	(2)	(160)
Earnings from investment in associate company	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
	–	–	–	–	–	–	–	–
Earnings from investment in joint ventures	**–**	**5**	**3**	**–**	**8**	**–**	**–**	**8**
	–	7	1	–	8	–	–	8
Net finance costs	**(1)**	**(80)**	**(39)**	**2**	**(117)**	**–**	**(5)**	**(123)**
	–	(79)	(38)	3	(114)	–	–	(114)
Earnings before income taxes	**6**	**165**	**131**	**3**	**299**	**4**	**1**	**310**
	1	93	153	(2)	244	–	4	249
Income taxes	**(3)**	**(44)**	**(35)**	**(1)**	**(80)**	**–**	**(1)**	**(84)**
	–	(25)	(40)	2	(63)	–	(1)	(64)
Earnings for the period	**3**	**121**	**96**	**2**	**219**	**4**	**–**	**226**
	1	68	113	–	181	–	3	185
Adjusted earnings	**3**	**61**	**51**	**(7)**	**105**	**4**	**–**	**112**
	1	51	53	(8)	96	–	2	99
Total assets (2)	**855**	**13,430**	**7,881**	**707**	**22,018**	**474**	**252**	**23,599**
	790	13,494	7,842	483	21,819	491	244	23,344
Capital expenditures (3)	**18**	**112**	**107**	**1**	**220**	**–**	**1**	**239**
	22	116	139	4	259	–	6	287

(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 of interest capitalized during construction for the three months ended March 31, 2019 (2018 - $5 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to Class I and II Shares after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- one-time gains and losses,
- unrealized gains and losses on mark-to-market forward 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 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 March 31 is shown below.

2019 2018	Structures & Logistics	Canadian Utilities Limited: Electricity	Canadian Utilities Limited: Pipelines & Liquids	Canadian Utilities Limited: Corporate & Other	Canadian Utilities Limited: Consolidated	Neltume Ports	Corporate & Other	Consolidated
Adjusted earnings	**3**	**61**	**51**	**(7)**	**105**	**4**	**–**	**112**
	1	51	53	(8)	96	–	2	99
Unrealized gains (losses) on mark-to-market forward commodity contracts	**–**	**3**	**–**	**–**	**3**	**–**	**–**	**3**
	–	(9)	–	–	(9)	–	–	(9)
Rate-regulated activities	**–**	**(2)**	**(2)**	**1**	**(3)**	**–**	**–**	**(3)**
	–	(7)	5	–	(2)	–	1	(1)
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	1	–	1	–	–	1
Earnings attributable to Class I and Class II Shares	**3**	**62**	**49**	**(6)**	**105**	**4**	**–**	**112**
	1	35	59	(8)	86	–	3	90
Earnings attributable to non-controlling interests								**114**
								95
Earnings for the period								**226**
								185

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

The Company enters 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 are measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts are recognized in earnings where hedge accounting is not applied. The CODM believes that removal of the unrealized gains or losses on mark-to-market forward commodity contracts provides a better representation of operating results for the Company's Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. 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.

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

	2019	2018
Additional revenues billed in current period		
Future removal and site restoration costs [(1)]	**11**	10
Impact of colder temperatures [(2)]	**6**	6
Revenues to be billed in future periods		
Deferred income taxes [(3)]	**(15)**	(17)
Settlement of regulatory decisions and other items	**(5)**	–
	(3)	(1)

(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.

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 March 31 are shown below:

2019 2018	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other [(1)]	Total
Revenue Streams					
Sale of Goods					
Electricity generation and delivery	**–**	**164**	**–**	**–**	**164**
	–	84	–	–	84
Commodity sales	**–**	**4**	**5**	**–**	**9**
	–	5	3	–	8
Modular structures - goods	**28**	**–**	**–**	**–**	**28**
	37	–	–	–	37
Total sale of goods	**28**	**168**	**5**	**–**	**201**
	37	89	3	–	129
Rendering of Services					
Distribution services	**–**	**155**	**294**	**–**	**449**
	–	140	311	–	451
Transmission services	**–**	**169**	**66**	**–**	**235**
	–	169	64	–	233
Modular structures - services	**46**	**–**	**–**	**–**	**46**
	18	–	–	–	18
Logistics and facility operations and maintenance services	**27**	**–**	**–**	**–**	**27**
	24	–	–	–	24
Lodging and support	**14**	**–**	**–**	**–**	**14**
	16	–	–	–	16
Customer contributions	**–**	**10**	**5**	**–**	**15**
	–	9	4	–	13
Franchise fees	**–**	**8**	**66**	**–**	**74**
	–	8	71	–	79
Retail electricity and natural gas services	**–**	**–**	**–**	**56**	**56**
	–	–	–	27	27
Storage and industrial water	**–**	**–**	**7**	**–**	**7**
	–	–	14	–	14
Total rendering of services	**87**	**342**	**438**	**56**	**923**
	58	326	464	27	875
Lease income					
Finance lease	**–**	**9**	**–**	**–**	**9**
	–	9	–	–	9
Operating lease	**23**	**21**	**–**	**–**	**44**
	19	59	–	–	78
Total lease income	**23**	**30**	**–**	**–**	**53**
	19	68	–	–	87
Service concession arrangement	**–**	**126**	**–**	**–**	**126**
	–	399	–	–	399
Other	**–**	**15**	**5**	**1**	**21**
	1	6	1	2	10
Total	**138**	**681**	**448**	**57**	**1,324**
	115	888	468	29	1,500

(1) Includes revenues from the Corporate & Other in Canadian Utilities Limited and ATCO Ltd.

Disaggregation of revenues by rate-regulated and non-rate-regulated business operations for the three months ended March 31 is shown below:

	2019	2018
Rate-regulated business operations		
Rate-regulated Electricity		
Electricity Distribution	**179**	156
Electricity Transmission	**175**	171
	354	327
Rate-regulated Pipelines & liquids		
Natural Gas Distribution	**338**	350
Natural Gas Transmission	**68**	66
International Natural Gas Distribution	**35**	38
	441	454
Total rate-regulated business operations	**795**	781
Non-rate-regulated business operations		
Non-rate-regulated Electricity		
Independent Power Plants	**154**	74
Thermal PPA Plants	**42**	83
International Power Generation	**5**	5
Service concession arrangement	**126**	399
	327	561
Non-rate-regulated Pipelines & liquids		
Storage and Industrial Water	**7**	14
	7	14
Other non-rate-regulated business operations		
Modular Structures	**97**	74
Lodging and Support	**14**	16
Logistics and Facility Operations and Maintenance Services	**27**	24
Retail Electricity and Natural Gas Services	**56**	27
Other	**1**	3
	195	144
Total non-rate-regulated business operations	**529**	719
Total	**1,324**	1,500

6. EARNINGS PER SHARE

Earnings per Class I Non-Voting (Class I) and Class II Voting (Class II) Share are calculated by dividing the earnings attributable to Class I and Class II 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 I and Class II Shares outstanding.

The earnings and average number of shares used to calculate earnings per share for the three months ended March 31 are as follows:

	2019	2018
Average shares		
Weighted average shares outstanding	**114,322,689**	114,353,308
Effect of dilutive stock options	**61,304**	67,991
Effect of dilutive MTIP	**338,591**	334,243
Weighted average dilutive shares outstanding	**114,722,584**	114,755,542
Earnings for earnings per share calculation		
Earnings for the period	**226**	185
Non-controlling interests	**(114)**	(95)
	112	90
Earnings and diluted earnings per Class I and Class II Share		
Earnings per Class I and Class II Share	**$0.98**	$0.78
Diluted earnings per Class I and Class II Share	**$0.98**	$0.78

7. RESTRICTED PROJECT FUNDS

At March 31, 2019, Alberta PowerLine (APL), a partnership between Canadian Utilities Limited and Quanta Services Inc., had $307 million of funds restricted under the terms of APL's non-recourse long-term debt financing agreement signed in October 2017. APL was awarded a 35-year contract by the Alberta Electric System Operator (AESO) to design, build, own, and operate the Fort McMurray 500 kV Transmission project (Project). In March 2019, the construction of the Project was completed. The restricted project funds are released subject to the satisfaction of certain terms and conditions under the financing agreement.

Restricted project funds are as follows:

	March 31 2019	December 31 2018
Current assets		
Restricted cash (1)	**185**	230
Restricted funds for construction lien holdbacks	**122**	109
	307	339

(1) At March 31, 2019, restricted cash includes $173 million of funds contributed by APL partners as part of the equity contribution requirements, that are not available for general use by the Company (December 31, 2018 - $100 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	Electricity Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2018	19,315	1,950	1,007	670	1,683	24,625
Additions	**6**	**1**	**–**	**210**	**9**	**226**
Transfers	**88**	**4**	**–**	**(109)**	**17**	**–**
Retirements and disposals	**(6)**	**(27)**	**–**	**–**	**(2)**	**(35)**
Foreign exchange rate adjustment	**(7)**	**–**	**3**	**(3)**	**(6)**	**(13)**
March 31, 2019	**19,396**	**1,928**	**1,010**	**768**	**1,701**	**24,803**
Accumulated depreciation						
December 31, 2018	4,384	1,338	201	83	754	6,760
Depreciation	**112**	**15**	**6**	**–**	**18**	**151**
Retirements and disposals	**(6)**	**(18)**	**–**	**–**	**–**	**(24)**
Foreign exchange rate adjustment	**(1)**	**–**	**1**	**(1)**	**(2)**	**(3)**
March 31, 2019	**4,489**	**1,335**	**208**	**82**	**770**	**6,884**
Net book value						
December 31, 2018	14,931	612	806	587	929	17,865
March 31, 2019	**14,907**	**593**	**802**	**686**	**931**	**17,919**

The additions to property, plant and equipment included $5 million of interest capitalized during construction for the three months ended March 31, 2019 (2018 - $5 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	107
March 31, 2019		**107**
Accumulated depreciation		
January 1, 2019, on adoption of IFRS 16	3	–
Depreciation		**4**
March 31, 2019		**4**
Net book value		
January 1, 2019, on adoption of IFRS 16	3	107
March 31, 2019		**103**

10. SHORT-TERM DEBT

At March 31, 2019, the Company had $400 million of commercial paper outstanding at a weighted average effective interest rate of 1.97 per cent, maturing in April 2019 (December 31, 2018 - $175 million of commercial paper outstanding at a weighted average effective interest rate of 2.25 per cent, maturing in January 2019).

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

11. LONG-TERM DEBT

On January 23, 2019, CU Inc., a wholly owned subsidiary of the Company, repaid $180 million of 5.432 per cent debentures.

12. 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	107
Interest expense		**1**
Lease payments		**(4)**
		104
Less: amounts due within one year		**(16)**
March 31, 2019		**88**

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

In one year or less	**19**
In more than one year, but not more than five years	**57**
In more than five years	**44**
	120

The amounts recorded in the unaudited interim consolidated statements of earnings for the three months ended March 31, 2019, in relation to short-term leases and low-value leases are as follows:

Short-term leases	**2**
Low-value leases	**2**
	4

During the three months ended March 31, 2019, no expenses were incurred in relation to leases with variable payments.

13. CLASS I NON-VOTING AND CLASS II VOTING SHARES

At March 31, 2019, there were 101,439,131 (December 31, 2018 - 101,428,881) Class I Shares and 13,229,247 (December 31, 2018 - 13,231,247) Class II Shares outstanding. In addition, there were 695,050 options to purchase Class I Shares outstanding at March 31, 2019, under the Company's stock option plan.

DIVIDENDS

The Company declared and paid cash dividends of $0.4048 per Class I and Class II Share during the three months ended March 31, 2019 (2018 - $0.3766). The Company’s policy is to pay dividends quarterly on its Class I and Class II 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.

NORMAL COURSE ISSUER BID

On March 8, 2019, ATCO Ltd. began a normal course issuer bid to purchase up to 1,014,294 outstanding Class I Shares. The bid expires on March 7, 2020. The prior year normal course issuer bid to purchase up to 2,026,725 outstanding Class I Shares began on March 8, 2018 and expired on March 7, 2019.

No shares were purchased during the three months ended March 31, 2019 and March 31, 2018.

14. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities for the three months ended March 31 are summarized below.

	2019	2018
Depreciation and amortization	**167**	160
Earnings from investment in associate company	**(4)**	–
Dividends received from associate company	**12**	–
Earnings from investment in joint ventures, net of dividends and distributions received	**–**	(2)
Income taxes	**84**	64
Unearned availability incentives	**–**	(5)
Unrealized (gains) losses on mark-to-market forward commodity contracts	**(8)**	24
Contributions by customers for extensions to plant	**25**	23
Amortization of customer contributions	**(15)**	(13)
Net finance costs	**123**	114
Income taxes paid	**(34)**	(15)
Other	**3**	6
	353	356

CASH POSITION

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

	2019	2018
Cash	**616**	494
Short-term investments	**–**	6
Restricted cash (1)	**85**	102
Cash and cash equivalents	**701**	602
Bank indebtedness	**–**	(4)
	701	598

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

15. 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, 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, 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:

		March 31, 2019		December 31, 2018	
Recurring Measurements	Note	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets					
Finance lease receivables		**407**	**482**	395	487
Receivable under service concession arrangement		**1,522**	**1,522**	1,396	1,396
Financial Liabilities					
Long-term debt		**9,192**	**10,428**	9,397	10,042
Non-recourse long-term debt		**1,398**	**1,570**	1,401	1,474

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At March 31, 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 U.S. dollars, 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**
March 31, 2019					
Financial Assets					
Prepaid expenses and other current assets	–	**1**	–	**1**	**2**
Other assets	–	**1**	**2**	–	**3**
Financial Liabilities					
Other current liabilities (1)	**1**	**14**	**22**	–	**37**
Other liabilities (1)	**8**	**7**	**18**	–	**33**
December 31, 2018					
Financial Assets					
Prepaid expenses and other current assets	1	2	–	2	5
Other assets	1	2	4	–	7
Financial Liabilities					
Other current liabilities	–	15	34	4	53
Other liabilities	4	8	27	–	39

(1) At March 31, 2019, the Company paid a total of $29 million of cash collateral to third parties on commodity forward positions related to future periods (December 31, 2018 - $18 million). The contracts held with these third parties have an enforceable master netting arrangement, which allows the right to offset.

Notional and maturity summary

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

	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Notional value and maturity	**Interest Rate Swaps**	**Natural Gas (1)**	**Power (2)**	**Natural Gas (1)**	**Power (2)**	**Foreign Currency Forward Contracts**
March 31, 2019						
Purchases (3)	–	**10,745,000**		**48,155,200**	**2,747,165**	–
Sales (3)	–	–	**923,360**	**5,355,700**	**6,366,635**	–
Currency						
Canadian dollars	**99**	–	–	–	–	–
Australian dollars	**744**	–	–	–	–	–
Mexican pesos	**570**	–	–	–	–	**140**
U.S. dollars	–	–	–	–	–	**46**
Maturity	**2019-2028**	**2019-2021**	**2019-2020**	**2019-2022**	**2019-2021**	**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	100	–	–	–	–	–
Australian dollars	744	–	–	–	–	–
Mexican pesos	570	–	–	–	–	140
U.S. dollars	–	–	–	–	–	46
British pounds	–	–	–	–	–	74
Maturity	2019-2028	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.*