



ATCO LTD.

INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

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CONSOLIDATED STATEMENTS OF EARNINGS

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2019	2018	2019	2018
<i>(millions of Canadian Dollars except per share data)</i>					
Revenues	5	1,097	1,111	3,524	3,714
Costs and expenses					
Salaries, wages and benefits		(132)	(121)	(399)	(444)
Energy transmission and transportation		(51)	(45)	(154)	(135)
Plant and equipment maintenance		(73)	(55)	(206)	(172)
Fuel costs		(48)	(51)	(171)	(161)
Purchased power		(43)	(42)	(156)	(123)
Service concession arrangement costs		(15)	(104)	(118)	(620)
Materials and consumables		(127)	(55)	(329)	(191)
Depreciation and amortization	8, 9	(131)	(166)	(465)	(524)
Franchise fees		(42)	(35)	(171)	(158)
Property and other taxes		(48)	(48)	(137)	(142)
Unrealized gains on mark-to-market forward and swap commodity contracts		1	48	2	40
Other		(64)	(89)	(214)	(269)
		(773)	(763)	(2,518)	(2,899)
Proceeds from termination of Power Purchase Arrangement	4	-	62	-	62
Gain on sale of operations	17	163	-	153	-
Earnings from investment in associate company		3	1	11	1
Earnings from investment in joint ventures		4	5	17	19
Operating profit		494	416	1,187	897
Interest income		6	5	18	25
Interest expense		(128)	(123)	(387)	(373)
Net finance costs		(122)	(118)	(369)	(348)
Earnings before income taxes		372	298	818	549
Income tax (expense) recovery	6	(67)	(77)	24	(146)
Earnings for the period		305	221	842	403
Earnings attributable to:					
Class I and Class II Shares		160	115	430	193
Non-controlling interests		145	106	412	210
		305	221	842	403
Earnings per Class I and Class II Share	7	\$1.40	\$1.01	\$3.76	\$1.69
Diluted earnings per Class I and Class II Share	7	\$1.40	\$1.00	\$3.75	\$1.68

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of Canadian Dollars)</i>	2019	2018	2019	2018
Earnings for the period	305	221	842	403
Other comprehensive income (loss), net of income taxes				
<i>Items that will not be reclassified to earnings:</i>				
Re-measurement of retirement benefits ⁽¹⁾	58	25	(62)	50
<i>Items that are or may be reclassified subsequently to earnings:</i>				
Cash flow hedges ⁽²⁾	2	4	(8)	(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 17) ⁽⁴⁾	9	-	9	-
Foreign currency translation adjustment ⁽⁵⁾	(29)	(40)	(75)	(29)
	(14)	(32)	(66)	(23)
Other comprehensive income (loss)	44	(7)	(128)	27
Comprehensive income for the period	349	214	714	430
Comprehensive income attributable to:				
Class I and Class II Shares	183	104	348	205
Non-controlling interests	166	110	366	225
	349	214	714	430

(1) Net of income taxes of \$(19) million and \$18 million for the three and nine months ended September 30, 2019 (2018 - \$(8) million and \$(18) million).

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

(3) Net of income taxes of \$(1) million 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) million 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

<i>(millions of Canadian Dollars)</i>	Note	September 30 2019	December 31 2018
ASSETS			
Current assets			
Cash and cash equivalents	15	1,066	691
Accounts receivable and contract assets		683	745
Finance lease receivables		8	15
Inventories		76	66
Restricted project funds	18	–	339
Receivable under service concession arrangement	18	–	67
Prepaid expenses and other current assets		118	174
		1,951	2,097
Assets of the disposal group classified as held for sale	18	1,777	–
		3,728	2,097
Non-current assets			
Property, plant and equipment	8, 17	17,622	17,865
Intangibles	17	654	672
Right-of-use assets	3, 9	95	–
Goodwill		82	82
Investment in joint ventures		190	240
Investment in associate company		477	491
Finance lease receivables		176	380
Deferred income tax assets	6	51	85
Receivable under service concession arrangement	18	–	1,329
Other assets		82	103
Total assets		23,157	23,344
LIABILITIES			
Current liabilities			
Bank indebtedness	15	75	–
Accounts payable and accrued liabilities		630	921
Lease liabilities	3, 13	15	–
Other current liabilities		45	144
Short-term debt	10	–	175
Long-term debt	11	76	488
Non-recourse long-term debt	12, 18	–	20
		841	1,748
Liabilities of the disposal group classified as held for sale	18	1,603	–
		2,444	1,748
Non-current liabilities			
Deferred income tax liabilities	6	1,196	1,399
Retirement benefit obligations		454	384
Customer contributions		1,718	1,798
Lease liabilities	3, 13	82	–
Other liabilities	17, 18	116	283
Long-term debt	11	9,346	8,909
Non-recourse long-term debt	12, 18	–	1,381
Total liabilities		15,356	15,902
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II shares	14	173	169
Contributed surplus		11	11
Retained earnings		3,791	3,535
Accumulated other comprehensive (loss) income		(9)	40
		3,966	3,755
Non-controlling interests		3,835	3,687
Total equity		7,801	7,442
Total liabilities and equity		23,157	23,344

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive 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		-	-	193	-	193	210	403
Other comprehensive income		-	-	-	12	12	15	27
Gains on retirement benefits transferred to retained earnings		-	-	27	(27)	-	-	-
Shares issued		-	-	-	-	-	47	47
Dividends	14	-	-	(130)	-	(130)	(207)	(337)
Share-based compensation		3	-	3	-	6	-	6
Changes in ownership interest in subsidiary company ⁽¹⁾		-	-	22	-	22	(22)	-
September 30, 2018		170	10	3,470	(17)	3,633	3,622	7,255
December 31, 2018		169	11	3,535	40	3,755	3,687	7,442
Earnings for the period		-	-	430	-	430	412	842
Other comprehensive loss		-	-	-	(83)	(83)	(45)	(128)
Losses on retirement benefits transferred to retained earnings		-	-	(34)	34	-	-	-
Shares issued		3	-	-	-	3	3	6
Dividends	14	-	-	(139)	-	(139)	(221)	(360)
Share-based compensation		1	-	(1)	-	-	(1)	(1)
Other		-	-	-	-	-	-	-
September 30, 2019		173	11	3,791	(9)	3,966	3,835	7,801

(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 September 30		Nine Months Ended September 30	
		2019	2018	2019	2018
Operating activities					
Earnings for the period		305	221	842	403
Adjustments to reconcile earnings to cash flows from operating activities	15	141	328	616	1,004
Changes in non-cash working capital		(17)	(163)	(207)	(74)
Change in receivable under service concession arrangement		(13)	(130)	(152)	(710)
Cash flows from operating activities		416	256	1,099	623
Investing activities					
Additions to property, plant and equipment		(295)	(298)	(775)	(846)
Proceeds on disposal of property, plant and equipment		-	2	1	3
Additions to intangibles		(14)	(5)	(47)	(45)
Acquisition, net of cash acquired		-	-	-	(70)
Investment in equity interest in associate company		-	(448)	(9)	(448)
Proceeds on sale of operations, net of cash disposed	17	681	-	681	-
Investment in joint ventures		-	-	-	(6)
Changes in non-cash working capital		11	(18)	(23)	(99)
Other		6	(5)	10	(8)
Cash flows from (used in) investing activities		389	(772)	(162)	(1,519)
Financing activities					
Net (repayment) issue of short-term debt	10	(550)	350	(175)	390
Issue of long-term debt	11	593	858	619	998
Repayment of long-term debt	11	(312)	(670)	(544)	(775)
Release of restricted project funds		6	152	183	645
Repayment of non-recourse long-term debt	12	(18)	(4)	(25)	(11)
Repayment of lease liabilities	13	(5)	-	(14)	-
Issue of shares by subsidiary companies		3	-	3	1
Issue of Class I Shares		2	1	3	3
Dividends paid to Class I and Class II Share owners		(46)	(44)	(139)	(130)
Dividends paid to non-controlling interests		(74)	(53)	(221)	(160)
Interest paid		(103)	(107)	(355)	(347)
Other		(2)	(3)	15	4
Cash flows (used in) from financing activities		(506)	480	(650)	618
Increase (decrease) in cash position ⁽¹⁾		299	(36)	287	(278)
Foreign currency translation		11	(2)	13	(3)
Beginning of period		681	251	691	494
End of period	15	991	213	991	213

(1) Cash position includes \$29 million which is not available for general use by the Company (2018 - \$56 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

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 the 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 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, 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 direct 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 \$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.

<i>(millions of Canadian Dollars)</i>	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	13	–	18	18
Non-current liabilities				
Lease liabilities	13	–	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

SEGMENTED RESULTS

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

2019	Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited				ATCO Consolidated
				Electricity	Pipelines & Liquids	Corporate & Other	Consolidated	
2018								
Revenues - external	215	-	(3)	529	325	31	885	1,097
	120	-	1	688	278	24	990	1,111
Revenues - intersegment	1	-	(1)	1	9	(10)	-	-
	-	-	-	-	9	(9)	-	-
Revenues	216	-	(4)	530	334	21	885	1,097
	120	-	1	688	287	15	990	1,111
Operating expenses ⁽¹⁾	(185)	-	13	(267)	(202)	(1)	(470)	(642)
	(105)	-	16	(298)	(189)	(21)	(508)	(597)
Depreciation and amortization	(12)	-	(2)	(49)	(67)	(1)	(117)	(131)
	(7)	-	(1)	(98)	(61)	1	(158)	(166)
Proceeds from termination of Power Purchase Arrangement	-	-	-	-	-	-	-	-
	-	-	-	62	-	-	62	62
Gain on sale of operations (Note 17)	-	-	-	163	-	-	163	163
	-	-	-	-	-	-	-	-
Earnings from investment in associate company	-	3	-	-	-	-	-	3
	-	1	-	-	-	-	-	1
Earnings from investment in joint ventures	1	-	-	1	2	-	3	4
	(2)	-	-	4	3	-	7	5
Net finance costs	(2)	-	(4)	(79)	(37)	-	(116)	(122)
	(1)	-	(2)	(79)	(38)	2	(115)	(118)
Earnings (loss) before income taxes	18	3	3	299	30	19	348	372
	5	1	14	279	2	(3)	278	298
Income tax (expense) recovery	(5)	-	-	(49)	(6)	(7)	(62)	(67)
	(2)	-	(1)	(75)	1	-	(74)	(77)
Earnings (loss) for the period	13	3	3	250	24	12	286	305
	3	1	13	204	3	(3)	204	221
Adjusted earnings (loss)	13	3	3	59	9	(13)	55	74
	3	1	15	70	9	(11)	68	87
Capital expenditures ⁽³⁾	20	-	(1)	116	178	1	295	314
	37	-	(2)	99	169	6	274	309

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

2019	Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited				ATCO Consolidated
				Electricity	Pipelines & Liquids	Corporate & Other	Consolidated	
2018								
Revenues - external	557	-	(9)	1,727	1,119	130	2,976	3,524
	371	-	1	2,211	1,050	81	3,342	3,714
Revenues - intersegment	1	-	(1)	9	47	(56)	-	-
	-	-	-	10	37	(47)	-	-
Revenues	558	-	(10)	1,736	1,166	74	2,976	3,524
	371	-	1	2,221	1,087	34	3,342	3,714
Operating expenses ⁽¹⁾	(488)	-	31	(878)	(663)	(55)	(1,596)	(2,053)
	(337)	-	26	(1,351)	(649)	(64)	(2,064)	(2,375)
Depreciation and amortization	(32)	-	(5)	(230)	(193)	(5)	(428)	(465)
	(29)	-	(4)	(299)	(193)	1	(491)	(524)
Proceeds from termination of Power Purchase Arrangement	-	-	-	-	-	-	-	-
	-	-	-	62	-	-	62	62
Gain on sale of operations (Note 17)	-	-	-	153	-	-	153	153
	-	-	-	-	-	-	-	-
Earnings from investment in associate company	-	11	-	-	-	-	-	11
	-	1	-	-	-	-	-	1
Earnings from investment in joint ventures	2	-	-	7	8	-	15	17
	-	-	-	13	6	-	19	19
Net finance costs	(6)	-	(13)	(239)	(114)	3	(350)	(369)
	(2)	-	(2)	(238)	(115)	9	(344)	(348)
Earnings (loss) before income taxes	34	11	3	549	204	17	770	818
	3	1	21	408	136	(20)	524	549
Income tax (expense) recovery	(11)	-	-	30	21	(16)	35	24
	(2)	-	(3)	(111)	(38)	8	(141)	(146)
Earnings (loss) for the period	23	11	3	579	225	1	805	842
	1	1	18	297	98	(12)	383	403
Adjusted earnings (loss)	23	11	3	175	83	(31)	227	264
	10	1	15	174	76	(29)	221	247
Total assets ⁽²⁾	921	477	257	13,158	7,982	362	21,502	23,157
	790	491	244	13,494	7,842	483	21,819	23,344
Capital expenditures ⁽³⁾	80	-	1	336	416	3	755	836
	78	-	5	341	470	13	824	907

(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 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 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	Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited				ATCO Consolidated
				Electricity	Pipelines & Liquids	Corporate & Other	Consolidated	
2018								
Adjusted earnings (loss)	13	3	3	59	9	(13)	55	74
	3	1	15	70	9	(11)	68	87
Gain on sale of operations (Note 17)	-	-	-	77	-	-	77	77
	-	-	-	-	-	-	-	-
Proceeds from termination of Power Purchase Arrangement	-	-	-	-	-	-	-	-
	-	-	-	19	-	-	19	19
Unrealized (losses) gains on mark-to-market forward and swap commodity contracts	-	-	-	(7)	-	8	1	1
	-	-	-	18	-	-	18	18
Rate-regulated activities	-	-	-	6	1	2	9	9
	-	-	(2)	(1)	(8)	1	(8)	(10)
IT Common Matters decision	-	-	-	(1)	-	-	(1)	(1)
	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
	-	-	-	-	1	-	1	1
Earnings (loss) attributable to Class I and Class II Shares	13	3	3	134	10	(3)	141	160
	3	1	13	106	2	(10)	98	115
Earnings attributable to non-controlling interests								145
								106
Earnings for the period								305
								221

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

2019	Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited				ATCO Consolidated
				Electricity	Pipelines & Liquids	Corporate & Other	Consolidated	
2018								
Adjusted earnings (loss)	23	11	3	175	83	(31)	227	264
	10	1	15	174	76	(29)	221	247
Gain on sale of operations (Note 17)	-	-	-	73	-	-	73	73
	-	-	-	-	-	-	-	-
Transaction costs	-	-	-	(1)	-	-	(1)	(1)
	-	-	-	-	-	-	-	-
Restructuring and other costs	-	-	-	-	-	-	-	-
	(9)	-	3	(19)	(11)	(3)	(33)	(39)
Proceeds from termination of Power Purchase Arrangement	-	-	-	-	-	-	-	-
	-	-	-	19	-	-	19	19
Unrealized (losses) gains on mark-to-market forward and swap commodity contracts	-	-	-	(7)	-	8	1	1
	-	-	-	15	-	-	15	15
Rate-regulated activities	-	-	-	67	35	-	102	102
	-	-	-	(35)	(15)	1	(49)	(49)
IT Common Matters decision	-	-	-	(5)	(4)	-	(9)	(9)
	-	-	-	-	-	-	-	-
Earnings (loss) attributable to Class I and Class II Shares	23	11	3	302	114	(23)	393	430
	1	1	18	154	50	(31)	173	193
Earnings attributable to non-controlling interests								412
								210
Earnings for the period								842
								403

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 17). The sale resulted in an aggregate gain of \$153 million (\$73 million after-tax and non-controlling interests (NCI)). As the gain is related to a series of one-time transactions, it is excluded from adjusted earnings. This gain includes \$10 million (\$4 million after-tax and NCI) 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 18). 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 \$39 million, after-tax and NCI, 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 (\$24 million after-tax and NCI) 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 (\$5 million after-tax and NCI) 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 \$19 million after-tax and NCI 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 17), 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
<i>Additional revenues billed in current period</i>				
Future removal and site restoration costs ⁽¹⁾	10	10	29	31
Impact of colder temperatures ⁽²⁾	2	3	8	9
<i>Revenues to be billed in future periods</i>				
Deferred income taxes ⁽³⁾	(12)	(10)	(41)	(41)
Deferred income taxes due to decrease in provincial corporate income tax ⁽⁴⁾	-	-	106	-
Impact of inflation on rate base ⁽⁵⁾	(3)	-	(5)	-
<i>Regulatory decisions received (see below)</i>	1	-	-	-
<i>Settlement of regulatory decisions and other items ⁽⁶⁾</i>	11	(13)	5	(48)
	9	(10)	102	(49)

(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 \$106 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 \$20 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 \$17 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	9	<p>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.</p> <p>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 \$9 million. Of this amount, \$8 million relates to the period January 1, 2015 to June 30, 2019 and was recorded in the second quarter of 2019. The remaining \$1 million was recorded in the third quarter of 2019.</p>
2. ATCO Electric Transmission General Tariff Application (GTA)	(9)	<p>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 \$9 million was recorded in the second quarter of 2019.</p>

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 \$74 million. In 2014, CU 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 \$9 million reduction recognized in 2019 year-to-date, along with future impacts associated with this decision, will be excluded from 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 no foreign exchange gain or loss (2018 - a foreign exchange gain of \$1 million and nil, respectively) 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	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other ⁽¹⁾	Total
Revenue Streams					
Sale of Goods					
Electricity generation and delivery	-	122	-	-	122
	-	142	-	-	142
Commodity sales	-	6	1	-	7
	-	6	2	-	8
Modular structures - goods	61	-	-	-	61
	36	-	-	-	36
Total sale of goods	61	128	1	-	190
	36	148	2	-	186
Rendering of Services					
Distribution services	-	148	195	-	343
	-	116	179	-	295
Transmission services	-	168	69	-	237
	-	185	49	-	234
Modular structures - services	73	-	-	-	73
	22	-	-	-	22
Logistics and facility operations and maintenance services	24	-	-	-	24
	24	-	-	-	24
Lodging and support	29	-	-	-	29
	16	-	-	-	16
Customer contributions	-	4	5	-	9
	-	8	5	-	13
Retail electricity and natural gas services	-	-	-	27	27
	-	-	-	23	23
Franchise fees	-	7	36	-	43
	-	8	27	-	35
Storage and industrial water	-	-	5	-	5
	-	-	11	-	11
Total rendering of services	126	327	310	27	790
	62	317	271	23	673
Lease income					
Finance lease	-	2	-	-	2
	-	9	-	-	9
Operating lease	28	22	-	-	50
	22	79	-	-	101
Total lease income	28	24	-	-	52
	22	88	-	-	110
Service concession arrangement					
	-	37	-	-	37
	-	130	-	-	130
Other					
	-	13	14	1	28
	-	5	5	2	12
Total	215	529	325	28	1,097
	120	688	278	25	1,111

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

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

2019 2018	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other ⁽¹⁾	Total
Revenue Streams					
Sale of Goods					
Electricity generation and delivery	–	398	–	–	398
	–	342	–	–	342
Commodity sales	–	14	7	–	21
	–	14	8	–	22
Modular structures - goods	122	–	–	–	122
	126	–	–	–	126
Total sale of goods	122	412	7	–	541
	126	356	8	–	490
Rendering of Services					
Distribution services	–	432	700	–	1,132
	–	399	677	–	1,076
Transmission services	–	505	208	–	713
	–	454	178	–	632
Modular structures - services	207	–	–	–	207
	68	–	–	–	68
Logistics and facility operations and maintenance services	80	–	–	–	80
	68	–	–	–	68
Lodging and support	69	–	–	–	69
	48	–	–	–	48
Customer contributions	–	24	14	–	38
	–	27	14	–	41
Retail electricity and natural gas services	–	–	–	113	113
	–	–	–	77	77
Franchise fees	–	24	148	–	172
	–	23	135	–	158
Storage and industrial water	–	–	18	–	18
	–	–	30	–	30
Total rendering of services	356	985	1,088	113	2,542
	184	903	1,034	77	2,198
Lease income					
Finance lease	–	18	–	–	18
	–	26	–	–	26
Operating lease	79	65	–	–	144
	61	200	–	–	261
Total lease income	79	83	–	–	162
	61	226	–	–	287
Service concession arrangement					
	–	205	–	–	205
	–	710	–	–	710
Other					
	–	42	24	8	74
	–	16	8	5	29
Total	557	1,727	1,119	121	3,524
	371	2,211	1,050	82	3,714

(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 is shown below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Rate-regulated business operations				
<i>Rate-regulated Electricity</i>				
Electricity Distribution	158	128	488	442
Electricity Transmission	174	188	524	462
	332	316	1,012	904
<i>Rate-regulated Pipelines & liquids</i>				
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				
<i>Non-rate-regulated Electricity</i>				
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
<i>Non-rate-regulated Pipelines & liquids</i>				
Storage and Industrial Water	5	11	18	30
	5	11	18	30
<i>Other non-rate-regulated business operations</i>				
Modular Structures	162	80	408	255
Lodging and Support	29	16	69	48
Logistics and Facility Operations and Maintenance	24	24	80	68
Retail Electricity and Natural Gas Services	27	23	113	77
Other	34	12	50	24
	276	155	720	472
Total Non-rate-regulated business operations	451	532	1,425	1,801
Total	1,097	1,111	3,524	3,714

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	372	%	298	%
Income taxes, at statutory rates	99	26.5	80	27.0
Non-taxable gains	(26)	(7.0)	(2)	(0.7)
Other	(6)	(1.5)	(1)	(0.3)
	67	18.0	77	26.0

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	818	%	549	%
Income taxes, at statutory rates	217	26.5	148	27.0
Change in income taxes resulting from decrease in provincial corporate tax rate	(210)	(25.7)	-	-
Non-taxable gains	(26)	(3.2)	(2)	(0.4)
Other	(5)	(0.6)	-	-
	(24)	(3.0)	146	26.6

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 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 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Average shares				
Weighted average shares outstanding	114,383,587	114,433,652	114,352,981	114,400,805
Effect of dilutive stock options	50,882	46,832	43,101	54,847
Effect of dilutive MTIP	328,673	342,023	329,637	344,503
Weighted average dilutive shares outstanding	114,763,142	114,822,507	114,725,719	114,800,155
Earnings for earnings per share calculation				
Earnings for the period	305	221	842	403
Non-controlling interests	(145)	(106)	(412)	(210)
Earnings attributable to Class I and Class II Shares	160	115	430	193
Earnings and diluted earnings per Class I and Class II Share				
Earnings per Class I and Class II Share	\$1.40	\$1.01	\$3.76	\$1.69
Diluted earnings per Class I and Class II Share	\$1.40	\$1.00	\$3.75	\$1.68

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	19	46	1	728	27	821
Transfers	552	5	3	(605)	45	-
Retirements and disposals	(32)	(27)	(21)	-	(33)	(113)
Reclassification to assets held for sale ⁽¹⁾	-	(1,801)	(13)	(21)	(21)	(1,856)
Foreign exchange rate adjustment	(91)	-	(2)	(6)	(22)	(121)
September 30, 2019	19,763	173	975	766	1,679	23,356
Accumulated depreciation						
December 31, 2018	4,384	1,338	201	83	754	6,760
Depreciation	323	24	18	-	72	437
Retirements and disposals	(32)	(18)	(14)	-	(24)	(88)
Reclassification to assets held for sale ⁽¹⁾	-	(1,335)	-	-	(13)	(1,348)
Foreign exchange rate adjustment	(16)	-	1	(2)	(10)	(27)
September 30, 2019	4,659	9	206	81	779	5,734
Net book value						
December 31, 2018	14,931	612	806	587	929	17,865
September 30, 2019	15,104	164	769	685	900	17,622

(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 17).

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	107
Additions		4
Foreign exchange rate adjustment		(2)
September 30, 2019		109
Accumulated depreciation		
January 1, 2019, on adoption of IFRS 16	3	-
Depreciation		14
September 30, 2019		14
Net book value		
January 1, 2019, on adoption of IFRS 16	3	107
September 30, 2019		95

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 17), 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 17).

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	107
Additions		4
Interest expense		2
Lease payments		(14)
Foreign exchange rate adjustment		(2)
		97
Less: amounts due within one year		(15)
September 30, 2019		82

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

In one year or less	20
In more than one year, but not more than five years	60
In more than five years	38
	118

The amounts expensed in the unaudited interim consolidated statements of earnings for the three and nine months ended September 30, 2019, in relation to short-term leases and low-value leases are as follows:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Short-term leases	2	6
Low-value leases	2	5
	4	11

During the three and nine months ended September 30, 2019, no expenses were incurred in relation to leases with variable payments.

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

At September 30, 2019, there were 101,550,531 (December 31, 2018 - 101,428,881) Class I Shares and 13,205,347 (December 31, 2018 - 13,231,247) Class II Shares outstanding. In addition, there were 600,700 options to purchase Class I Shares outstanding at September 30, 2019, under the Company's stock option plan.

DIVIDENDS

The Company declared and paid cash dividends of \$0.4048 and \$1.2144 per Class I and Class II Share during the three and nine months ended September 30, 2019 (2018 - \$0.3766 and \$1.1298). 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.

On October 10, 2019, the Company declared a fourth quarter dividend of \$0.4048 per Class I and Class II Share.

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 and nine months ended September 30, 2019 and September 30, 2018.

15. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Depreciation and amortization	131	166	465	524
Gain on sale of operations (Note 17)	(163)	–	(153)	–
Earnings from investment in associate company	(3)	(1)	(11)	(1)
Dividends received from associate company	–	–	12	–
Earnings from investment in joint ventures, net of dividends and distributions received	(1)	4	–	3
Income tax expense (recovery)	67	77	(24)	146
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	18	16	54	64
Amortization of customer contributions	(9)	(13)	(38)	(41)
Net finance costs	122	118	369	348
Income taxes paid	(24)	(3)	(89)	(41)
Other	3	22	26	56
	141	328	616	1,004

CASH POSITION

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

	2019	2018
Cash	1,036	282
Short-term investments	1	4
Restricted cash ⁽¹⁾	29	56
Cash and cash equivalents	1,066	342
Bank indebtedness	(75)	(129)
	991	213

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

16. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash 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:

Recurring Measurements	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Finance lease receivables	184	260	395	487
Receivable under service concession arrangement ⁽¹⁾	-	-	1,396	1,396
Financial Liabilities				
Long-term debt	9,422	11,223	9,397	10,042
Non-recourse long-term debt (Note 12, Note 18)	-	-	1,401	1,474

(1) Reclassified as assets held for sale (Note 18).

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 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:

Recurring Measurements	Subject to Hedge Accounting		Not Subject to Hedge Accounting		Total Fair Value of Derivatives
	Interest Rate Swaps	Commodities	Commodities	Foreign Currency Forward Contracts	
September 30, 2019					
Financial Assets					
Prepaid expenses and other current assets	-	21	-	-	21
Other assets	-	27	-	-	27
Financial Liabilities					
Other current liabilities	4	13	-	-	17
Other liabilities	5	14	-	-	19
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 ⁽¹⁾	-	15	34	4	53
Other liabilities ⁽¹⁾	4	8	27	-	39

(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						
Canadian dollars	96	-	-	-	-	-
Australian dollars	741	-	-	-	-	-
Mexican pesos	570	-	-	-	-	100
U.S. dollars	-	-	-	-	-	46
Maturity	2019-2028	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	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.

17. 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.

18. 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:

<i>(millions of Canadian Dollars)</i>	
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