THE YUKON ELECTRICAL COMPANY LIMITED

(o/a ATCO ELECTRIC YUKON)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

Independent auditor's report

To the Shareholder of The Yukon Electrical Company Limited (operating as ATCO Electric Yukon)

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Yukon Electrical Company Limited (operating as ATCO Electric Yukon) (the Company) as at December 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's financial statements comprise:

- the statement of earnings and comprehensive income for the year ended December 31, 2018;
- the balance sheet as at December 31, 2018;
- the statement of changes in equity for the year ended December 31, 2018;
- the statement of cash flows for the year ended December 31, 2018; and
- the notes to financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
April 29, 2019

STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(thousands of Canadian Dollars)	Note	Year Ended December 31 2018	2017 (Note 4)
Revenues	6	**69,153**	66,198
Costs and expenses			
Salaries, wages and benefits		**(6,310)**	(5,840)
Plant and equipment maintenance		**(2,696)**	(3,359)
Fuel costs		**(6,627)**	(5,642)
Purchased power		**(36,855)**	(34,016)
Depreciation and amortization	10,11	**(6,136)**	(5,961)
Property and other taxes		**(264)**	(253)
Other	7	**(2,431)**	(3,322)
		(61,319)	(58,393)
Operating profit		**7,834**	7,805
Interest income		**115**	67
Interest expense	8	**(3,318)**	(3,284)
Net finance costs		**(3,203)**	(3,217)
Earnings before income taxes		**4,631**	4,588
Income taxes	9	**(1,165)**	(604)
Earnings and comprehensive income for the year		**3,466**	3,984

See accompanying Notes to Financial Statements.

BALANCE SHEETS

(thousands of Canadian Dollars)	Note	2018	December 31 2017 (Note 4)
ASSETS			
Current assets			
Cash		**5,622**	2,121
Accounts receivable and contract assets		**7,926**	7,629
Accounts receivable from parent and affiliate companies	23	**82**	254
Inventories		**647**	831
Prepaid expenses and other current assets		**47**	49
		14,324	10,884
Non-current assets			
Property, plant and equipment	10	**146,184**	142,779
Intangibles	11	**3,984**	4,142
Other assets		**250**	452
Total assets		**164,742**	158,257
LIABILITIES			
Current liabilities			
Short-term advances from parent company	23	**–**	600
Accounts payable and accrued liabilities		**9,568**	7,268
Accounts payable to parent and affiliate companies	23	**2,029**	1,997
Long-term debt	12	**5,500**	–
		17,097	9,865
Non-current liabilities			
Deferred income tax liabilities	9	**8,218**	7,053
Retirement benefit obligations	13	**1,806**	1,758
Customer contributions	14	**37,325**	35,651
Long-term debt	12	**63,500**	66,400
Total liabilities		**127,946**	120,727
EQUITY			
Class A and Class B share owner's equity			
Class A and Class B shares	15	**11,569**	11,569
Retained earnings		**25,227**	25,961
Total equity		**36,796**	37,530
Total liabilities and equity		**164,742**	158,257

See accompanying Notes to Financial Statements.

DIRECTOR

DIRECTOR

STATEMENTS OF CHANGES IN EQUITY

(thousands of Canadian Dollars)	**Note**	**Class A and Class B Shares**	**Retained Earnings**	**Total Equity**
December 31, 2016		11,569	25,727	37,296
Earnings for the year, as previously reported		–	3,200	3,200
Restatement adjustment	4	–	784	784
Dividends	15	–	(3,750)	(3,750)
December 31, 2017, restated	4	11,569	25,961	37,530
Earnings for the year		–	**3,466**	**3,466**
Dividends	15	–	**(4,200)**	**(4,200)**
December 31, 2018		**11,569**	**25,227**	**36,796**

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

(thousands of Canadian Dollars)	Note	2018	Year Ended December 31 2017 (Note 4)
Operating activities			
Earnings for the year		**3,466**	3,984
Adjustments to reconcile earnings to cash flows from operating activities	4,16	**11,805**	10,536
Changes in non-cash working capital	16	**3,095**	(547)
Cash flows from operating activities		**18,366**	13,973
Investing activities			
Additions to property, plant and equipment		**(9,071)**	(9,729)
Additions to intangibles		**(207)**	(142)
Changes in non-cash working capital	16	**(266)**	(54)
Other		**280**	103
Cash flows used in investing activities		**(9,264)**	(9,822)
Financing activities			
Issue of long-term debt	12	**2,600**	6,400
Repayment of long-term debt	12	**–**	(3,900)
Dividends paid to Class A and Class B share owner	15	**(4,200)**	(3,750)
Interest paid		**(3,401)**	(3,412)
Cash flows used in financing activities		**(5,001)**	(4,662)
Increase (decrease) in cash position		**4,101**	(511)
Beginning of year		**1,521**	2,032
End of year	16	**5,622**	1,521

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

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

1. THE COMPANY AND ITS OPERATIONS

The Yukon Electrical Company Limited is engaged in the generation, distribution and sale of electric energy in the Yukon and was incorporated under the laws of Canada and operates under the name ATCO Electric Yukon. Its registered office is at 100 - 1100 Front Street, Whitehorse, YT, Y1A 3T4. ATCO Electric Yukon is wholly owned by ATCO Electric Ltd. ATCO Electric Ltd. is principally owned by CU Inc. which is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

In these financial statements, "the Company" means ATCO Electric Yukon.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

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

Management authorized these financial statements for issue on April 29, 2019.

BASIS OF MEASUREMENT

The financial statements are prepared on a historic cost basis, except for retirement benefit obligations which are carried at remeasured amounts. The Company's significant accounting policies are described in Note 24.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

USE OF ESTIMATES AND JUDGMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the financial statements are reported, and contingent assets and liabilities are disclosed. Most often these estimates and judgments concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, estimates and assumptions are described in Note 20.

3. CHANGE IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS CREDIT LOSSES

The Company adopted the final component of IFRS 9 *Financial Instruments, Impairments*, on January 1, 2018. This component includes a new expected credit loss model. The new model takes into account an expectation of future events by estimating credit losses based on an assessment of counterparty credit risk. The change results in earlier recognition of bad debt expense.

Impact of adoption of IFRS 9 on consolidated financial statements

To determine the amount of expected credit losses, the Company used default and recoverability probabilities. At January 1, 2018 the total credit loss provision was less than a million, which was determined based on third party average default and recoverability probabilities. There was no change in the credit loss provision recorded on adoption of IFRS 9.

REVENUE RECOGNITION

The Company adopted IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018, using the full retrospective transition method. Under the full retrospective transition method, the comparative figures for 2017 in the Company's non-consolidated financial statements have been restated. Certain practical expedients have been applied.

See Note 24 for accounting policies on revenue recognition.

Practical expedients

Effective January 1, 2017, the IFRS 15 transition date, the Company elected to use the following practical expedients:

(i) Information on the remaining performance obligations that have an original expected duration of one year or less is not disclosed;

(ii) For periods presented before January 1, 2018, the IFRS 15 adoption date, the information regarding the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognize this amount as revenue, are not disclosed;

(iii) Costs to obtain or fulfill a contract with an amortization period of less than a year have been expensed as incurred;

(iv) Where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance to date, revenue is recognized in the amount to which the Company has a right to invoice. Such performance obligations include:

- Provision of continuous distribution of electricity service;

IMPACT OF CHANGES IN ACCOUNTING POLICIES

As the Company has utilized the practical expedients noted above, there was no impact on the prior year consolidated statement of earnings, balance sheet, statement of changes in equity and statement of cash flow.

4. CORRECTION OF PRIOR YEAR ERROR

In 2018, the Company discovered that a change in the territorial income tax rate had not been taken into consideration in the financial statements for the year ended December 31, 2017. As a consequence, the current and deferred income taxes had not been correctly accounted for at December 31, 2017 and for the year then ended.

The error has been corrected by restating the 2017 income tax expense and the deferred income tax liabilities at December 31, 2017. There was no change in adjusted earnings. The restated statement of earnings, balance sheet, and the impact on the statement of cash flows as at and for the year ended December 31, 2017 is shown below:

STATEMENT OF EARNINGS — Year Ended December 31, 2017

(thousands of Canadian Dollars)	As previously reported	Restatement adjustment	Restated
Revenues	66,198	–	66,198
Costs and expenses			
Salaries, wages and benefits	(5,840)	–	(5,840)
Plant and equipment maintenance	(3,359)	–	(3,359)
Fuel costs	(5,642)	–	(5,642)
Purchased power	(34,016)	–	(34,016)
Depreciation and amortization	(5,961)	–	(5,961)
Property and other taxes	(253)	–	(253)
Other	(3,322)	–	(3,322)
	(58,393)	–	(58,393)
Operating profit	7,805	–	7,805
Interest income	67	–	67
Interest expense	(3,284)	–	(3,284)
Net finance costs	(3,217)	–	(3,217)
Earnings before income taxes	4,588	–	4,588
Income taxes	(1,388)	784	(604)
Earnings for the year	3,200	784	3,984

BALANCE SHEET			**December 31, 2017**
(thousands of Canadian Dollars)	**As previously reported**	**Restatement adjustment**	**Restated**
ASSETS			
Current assets			
Cash	2,121	–	2,121
Accounts receivable and contract assets	7,629	–	7,629
Accounts receivable from parent and affiliate companies	254	–	254
Inventories	831	–	831
Prepaid expenses and other current assets	49	–	49
	10,884	–	10,884
Non-current assets			
Property, plant and equipment	142,779	–	142,779
Intangibles	4,142	–	4,142
Other assets	452	–	452
Total assets	158,257	–	158,257
LIABILITIES			
Current liabilities			
Short-term advances from parent company	600	–	600
Accounts payable and accrued liabilities	7,268	–	7,268
Accounts payable to parent and affiliate companies	1,997	–	1,997
	9,865	–	9,865
Non-current liabilities			
Deferred income tax liabilities	7,837	(784)	7,053
Retirement benefit obligations	1,758	–	1,758
Other long-term liabilities	35,651	–	35,651
Long-term debt	66,400	–	66,400
Total liabilities	121,511	(784)	120,727
EQUITY			
Class A and Class B share owner's equity			
Class A and Class B shares	11,569	–	11,569
Retained earnings	25,177	784	25,961
Total equity	36,746	784	37,530
Total liabilities and equity	158,257	–	158,257

As a result of the re-measurement, in the statement of cash flows for the year ended December 31, 2017, the Company recorded an increase to earnings of $784 thousand, with a corresponding decrease of $784 thousand to adjustments to reconcile earnings to cash flows from operating activities, respectively.

5. ADJUSTED EARNINGS

ADJUSTED EARNINGS

Adjusted earnings are earnings for the year after adjusting for:

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

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

The reconciliation of adjusted earnings and earnings for the year ended December 31, 2018 is shown below.

	2018	2017 (Note 3)
Adjusted earnings	**5,395**	5,288
Rate-regulated activities	**(1,929)**	(1,304)
Earnings for the year	**3,466**	3,984

Rate-regulated activities

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 Company does not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Company recognizes 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 meets 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 (GAAP) 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 disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulators' decisions on revenues.

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

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Additional revenues billed in current period	Reserve for injuries and damages and deferred fuel variance.	The Company defers the recognition of cash received in advance of future expenditures.	The Company records revenues when amounts are billed to customers and recognizes costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes, deferred fuel variance, deferred hearing cost, and future removal and site restoration costs.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.

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

	2018	2017 (Note 3)
Additional revenues billed in current period		
Deferred fuel variance [(1)]	**(936)**	661
Deferred hearing costs [(2)]	**228**	11
Revenues to be billed in future periods		
Deferred income taxes [(3)]	**(796)**	(739)
Deferred study costs [(4)]	**14**	(261)
Future removal and site restoration costs [(5)]	**(318)**	(128)
Reserve for injuries and damages [(6)]	**59**	(19)
Other items	**(180)**	(829)
	(1,929)	(1,304)

(1) The deferred fuel price variance represents the difference in fuel costs approved by the Yukon Utilities Board (YUB) versus actual fuel costs. Recoveries from or refunds to customers of variances are expected to occur in the following year.

(2) The Company incurs hearing costs on an ongoing basis associated with regulatory proceedings. Revenues are recorded when billed to customers. Hearing costs are expensed as actual costs are incurred.

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

(4) The deferral is based on an amount approved by the YUB to be collected through customer rates. Revenues are recorded when billed to customers. Study costs are expensed as actual costs are incurred.

(5) 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.

(6) The reserve is based on an annual amount approved by the YUB to be collected through customer rates. Revenues are recorded when billed to customers. Reserve claims are expensed as actual costs are incurred.

6. REVENUES

The significant categories of revenues recognized during the year are as follows:

	2018	2017
Distribution revenue	**66,207**	63,369
Customer contributions *(Note 14)*	**1,538**	1,525
Other	**1,407**	1,304
	69,152	66,198

7. OTHER COSTS AND EXPENSES

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

8. INTEREST EXPENSE

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

	2018	2017
Long-term debt	**3,411**	3,411
Other	**12**	5
	3,423	3,416
Less: interest capitalized *(Note 10)*	**(105)**	(132)
	3,318	3,284

Borrowing costs capitalized to property, plant and equipment during 2018 were calculated by applying an interest rate of 4.92 per cent to expenditures on qualifying assets (2017 - 5.14 per cent).

9. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2018	2017 (Note 4)
Deferred income tax expense		
Reversal of temporary differences	**1,263**	1,314
Change in tax rate (*restatement adjustment, Note 4*)	**–**	(714)
Adjustment in respect of prior years	**(98)**	4
	1,165	604

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

	2018		2017 (Note 4)	
Earnings before income taxes, as previously reported	**4,631**	**%**	4,588	%
Income taxes, at statutory rates	**1,250**	**27.0**	1,308	28.5
Re-measurement of the deferred tax liability (*Note 4*)	**–**	**–**	(714)	(15.5)
Adjustment in respect of prior years	**(98)**	**(2.1)**	4	0.1
Other	**13**	**0.3**	6	0.1
	1,165	**25.2**	604	13.2

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

	Property, Plant and Equipment	Intangibles	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2016	8,201	564	(1,854)	(444)	(18)	6,449
Charge (credit) to earnings	1,427	6	175	(38)	(182)	1,388
Restatement adjustment (*Note 4*)	(963)	(57)	188	48	–	(784)
December 31, 2017, restated	8,665	513	(1,491)	(434)	(200)	7,053
Charge (credit) to earnings	**804**	**(88)**	**750**	**10**	**(311)**	**1,165**
December 31, 2018	**9,469**	**425**	**(741)**	**(424)**	**(511)**	**8,218**

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

At the end of 2018, the Company had $2.7 million of non-capital tax losses and credits which expire between 2033 and 2036. The Company recognized deferred income tax assets of $0.7 million for losses and credits that expire.

The change in deferred income taxes is resulting from a decrease in the Provincial corporate tax rate.

10. PROPERTY, PLANT AND EQUIPMENT

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

	Distribution	Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2016	154,034	41,817	5,930	5,798	7,564	215,143
Additions	5,739	1,665	16	1,830	767	10,017
Retirements and disposals	(103)	(721)	–	–	(252)	(1,076)
December 31, 2017	159,670	42,761	5,946	7,628	8,079	224,084
Additions	**–**	**–**	**–**	**9,321**	**–**	**9,321**
Transfers	**7,330**	**3,147**	**35**	**(10,781)**	**269**	**–**
Retirements and disposals	**(344)**	**(112)**	**–**	**–**	**(369)**	**(825)**
December 31, 2018	**166,656**	**45,796**	**5,981**	**6,168**	**7,979**	**232,580**
Accumulated depreciation						
December 31, 2016	57,688	11,692	2,081	–	5,137	76,598
Depreciation	3,733	1,340	118	–	592	5,783
Retirements and disposals	(103)	(721)	–	–	(252)	(1,076)
December 31, 2017	61,318	12,311	2,199	–	5,477	81,305
Depreciation	**3,846**	**1,348**	**65**	**–**	**657**	**5,916**
Transfers	**933**	**(889)**	**1,709**	**–**	**(1,753)**	**–**
Retirements and disposals	**(344)**	**(112)**	**–**	**–**	**(369)**	**(825)**
December 31, 2018	**65,753**	**12,658**	**3,973**	**–**	**4,012**	**86,396**
Net book value						
December 31, 2017	98,352	30,450	3,747	7,628	2,602	142,779
December 31, 2018	**100,903**	**33,138**	**2,008**	**6,168**	**3,967**	**146,184**

The additions to property, plant and equipment included $105,000 of interest capitalized during construction for the year ended December 31, 2018 (2017 - $132,000).

11. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2016	2,562	1,699	2,548	6,809
Additions	51	89	2	142
Retirements and disposals	(235)	–	–	(235)
December 31, 2017	2,378	1,788	2,550	6,716
Additions	**94**	**112**	–	**206**
December 31, 2018	**2,472**	**1,900**	**2,550**	**6,922**
Accumulated amortization				
December 31, 2016	1,858	260	357	2,475
Amortization	206	26	102	334
Retirements and disposals	(235)	–	–	(235)
December 31, 2017	1,829	286	459	2,574
Amortization	**234**	**28**	**102**	**364**
December 31, 2018	**2,063**	**314**	**561**	**2,938**
Net book value				
December 31, 2017	549	1,502	2,091	4,142
December 31, 2018	**409**	**1,586**	**1,989**	**3,984**

12. LONG-TERM DEBT

Long-term debt is with the Company's parent. Long-term debt outstanding at December 31 is shown in the table below.

	Effective Interest Rate	2018	2017
Debentures - unsecured	5.077% (2017 - 5.120%)	**69,000**	66,400
(interest is the average effective interest rate weighted by principal amounts outstanding)			
Less: amounts due within one year		**(5,500)**	–
		63,500	66,400

Debenture Issuances

During 2018, the Company issued $2,600,000 of 3.950 per cent debentures maturing on November 23, 2048 (2017 - $6,400,000 of 3.548 per cent debentures maturing on November 22, 2047).

13. RETIREMENT BENEFITS

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

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2018.

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

		2018		2017
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	**243**	**81**	509	79
Defined contribution plans cost	**279**	**–**	286	–
Total cost	**522**	**81**	795	79
Less: Capitalized	**28**	**3**	262	26
Net cost recognized	**494**	**78**	533	53
Accrued benefit obligations				
Beginning of year	226	1,532	230	1,476
Defined benefit plan cost	**243**	**81**	509	79
Benefit payments	**(7)**	**(29)**	(8)	(23)
Contributions to defined benefit plans	**(240)**	**–**	(505)	–
End of year	**222**	**1,584**	226	1,532

Weighted average assumptions

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

		2018		2017
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**3.60%**	**3.60%**	3.90%	3.90%
Average compensation increase for the year	**2.50%**	**n/a**	1.50%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.80%**	**3.80%**	3.60%	3.60%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs (1)	**n/a**	**5.30%**	n/a	5.43%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

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

Defined benefit plan funding

An actuarial valuation for funding purposes as of December 31, 2017 was completed in 2018 for the registered defined benefit pension plans. The estimated contribution for 2019 is $240,000. The next actuarial valuation for funding purposes must be completed as of December 31, 2020.

14. BALANCES FROM CONTRACTS WITH CUSTOMERS

Balances from contracts with customers are comprised of trade accounts receivable and contract assets, trade accounts receivable from parent and affiliate companies and customer contributions.

At December 31, trade accounts receivable and contract assets are included in accounts receivable and contract assets:

	2018	2017
Trade accounts receivable and contract assets	**7,264**	7,609
Other accounts receivable	**662**	20
	7,926	7,629

At December 31, trade accounts receivable from parent and affiliate companies are included in accounts receivable from parent and affiliate companies:

	2018	2017
Trade accounts receivable from parent and affiliate companies	**47**	250
Other accounts receivable from parent and affiliate companies	**35**	4
	82	254

The significant changes in trade accounts receivable and contract assets are as follows:

	Trade accounts receivable and contract assets	Trade accounts receivable from parent and affiliate companies	Total
December 31, 2016	7,060	101	7,161
Changes in accounts receivable	588	149	737
Impairment of accounts receivable from customers	(39)	–	(39)
December 31, 2017	7,609	250	7,859
Changes in accounts receivable	**(311)**	**(203)**	**(514)**
Impairment of accounts receivable from customers	**(34)**	–	**(34)**
December 31, 2018	**7,264**	**47**	**7,366**

CUSTOMER CONTRIBUTIONS

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

Changes in customer contributions balance are summarized below.

	2018	2017
Beginning of year	35,651	34,972
Receipt of customer contributions	**3,212**	2,204
Amortization	**(1,538)**	(1,525)
End of year	**37,325**	35,651

15. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31, 2018 is shown below.

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2017 and 2018	**1,686**	**7,179**	**1,023**	**4,390**	**2,709**	**11,569**

Class A and B shares have no par value.

The Company declared cash dividends of $1,550.39 per Class A non-voting share and Class B common share during 2018 (2017 - 1,384.27). The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

16. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

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

	2018	2017 (Note 4)
Depreciation and amortization	**6,136**	5,961
Income taxes	**1,165**	604
Contributions by utility customers for extensions to plant	**3,212**	2,204
Amortization of customer contributions	**(1,538)**	(1,525)
Net finance costs	**3,203**	3,217
Other	**(373)**	75
	11,805	10,536

CHANGES IN NON-CASH WORKING CAPITAL

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

	2018	2017
Operating activities		
Accounts receivable	**(297)**	(603)
Accounts receivable to parent and affiliate companies	**203**	(153)
Inventories	**184**	(194)
Prepaid expenses and other current assets	**2**	(4)
Accounts payable and accrued liabilities	**2,982**	959
Accounts payable to parent and affiliate companies	**21**	(552)
	3,095	(547)
Investing activities		
Accounts payable and accrued liabilities	**(266)**	(54)
	(266)	(54)

LONG-TERM DEBT RECONCILIATION

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

	Long-term debt
Liabilities from financing activities	
December 31, 2017	66,400
Net issue of long-term debt	**2,600**
December 31, 2018	**69,000**

CASH POSITION

Cash position in the statements of cash flows at December 31 is comprised of:

	2018	2017
Cash	**5,622**	2,121
Short-term advances from parent company	–	(600)
	5,622	1,521

17. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

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

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

		2018		2017	
Recurring Measurements	**Note**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Liabilities					
Long-term debt	12	**69,000**	**74,799**	66,400	76,640

18. RISK MANAGEMENT

FINANCIAL RISKS

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

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

CREDIT RISK

Credit risk is the risk of financial loss due to counterparties inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and cash equivalents and accounts receivable and accounts receivable from parent and affiliate companies. The exposure to credit risk represents the total carrying amount of these financial instruments in the balance sheet.

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

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days.

Depending on the nature of accounts receivable and contract assets, the Company estimates credit losses based on the expected credit loss rates for respective credit ratings. At December 31, 2018, the summary of the expected credit loss rates for respective credit ratings is as follows:

	High (AA to AAA)	Medium (BBB to A)	Low (BB and below)
Expected credit loss rate	0%-0.03%	0.05%-0.26%	0.36%-1.05%

The provision for impairment of credit losses was $73,000 in 2018 (2017 - $39,000). The Company is able to collect an estimate for doubtful accounts through customer rates.

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

	2018	2017
30 to 90 days	**420**	461
Greater than 90 days	**73**	39
	493	500

LIQUIDITY RISK

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

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2018, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2019	2020	2021	2022	2023	2024 and thereafter
Accounts payable and accrued liabilities	9,568	–	–	–	–	–
Accounts payable to parent and affiliate companies	2,029	–	–	–	–	–
Long-term debt:						
Principal	5,500	1,500	–	–	2,500	59,500
Interest expense	3,333	3,124	2,962	2,962	2,807	48,850
	20,430	4,624	2,962	2,962	5,307	108,350

19. CAPITAL DISCLOSURES

The Company's objective when managing capital is to remain within the capital structure approved by the YUB. The YUB-approved equity ratio was 40.0 per cent (2017 - 40.0 per cent) and the Company is capitalized consistent with the YUB-approved capital structure. The capitalization involves the use of long term debt and preferred share financings.

The Company includes share owner's equity, preferred shares, and long term debt, as adjusted in accordance with the Financial Accounting Standards Board (FASB) standards (see Note 5), in its determination of capitalization. In maintaining or adjusting its capital structure, the Company may adjust the dividends paid to the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares, and long-term debt.

20. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of financial assets

The impairment loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. The Company makes judgments in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Impairment of long-lived assets

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

Property, plant and equipment and intangibles

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

Income taxes

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

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

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

Impairment of financial assets

The impairment loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. For details regarding significant assumptions and key inputs used to calculate impairment loss allowance, see Note 17.

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, and the potential for technological obsolescence.

Impairment of long-lived assets

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

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Key assumptions used to determine the retirement benefit cost and obligation are shown in Note 13.

Income taxes

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

21. CONTINGENCIES

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

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

22. COMMITMENTS

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

	2019	2020	2021	2022	2023	2024 and thereafter
Purchase obligations:						
Operating and Maintenance Agreements	357	–	–	–	–	–
Capital expenditures	1,413	–	–	–	–	–
Diesel Fuel	2,296	–	–	–	–	–
	4,066	–	–	–	–	–

23. RELATED PARTY TRANSACTIONS

FINANCIAL INFORMATION

During the year, the Company entered into the following transactions with related parties:

Entity	Relationship	Transaction	Recorded As	2018	2017
ATCO Electric	Parent	Administration and Finance	Other Expenses	**494**	687
		Metering and Materials Management	Other Expenses	**125**	243
		Human Resources	Other Expenses	**117**	102
		Customer Care and Billing	Other Expenses	**35**	68
		Inventory and Asset Management Services	Capital	**69**	3
ATCO Gas	Affiliate	Metering Services	Other Expenses	**17**	13
ATCO Structures & Logistics	Affiliate	Building rent	Revenues	**19**	23

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

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

RELATED PARTY LOANS AND BALANCES

Short-term advances are obtained in the normal course of business and are generally due within 30 days or less from the date of the transaction. The interest rates are based on the Bank of Canada overnight rate plus an applicable spread.

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

24. ACCOUNTING POLICIES

RATE REGULATION

Nature and economic effects of rate regulation

The Company is regulated by the YUB. The YUB administers acts and regulations covering matters such as rates, financing and service area.

Financial statement effects of rate regulation

In the absence of a rate-regulated standard under IFRS that the Company is eligible to adopt, the company does not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Company records revenues in earnings when amounts are billed to customers consistent with the rate design approved by the YUB (see revenue recognition accounting policy below).

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

REVENUE RECOGNITION

Revenue is allocated to the respective performance obligations based on relative transaction prices, and is recognized as goods and services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred or services delivered. The amount of revenue recognized reflects the time value of money where a significant financing component has been identified.

Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change.

Where the amount of goods and services delivered to the customer corresponds directly to the amount invoiced, the Company recognizes revenue equal to what it has the right to invoice.

Where the Company arranges for another party to provide a specified good or service (that is, it does not control the specified good or service provided by another party before that good or service is transferred to the customer), only revenues net of payments to the other party for the goods or services provided are recognized.

Non-cash considerations received from the Company's customers are included in the amount of revenue recognized and measured at fair value.

Costs incurred directly to obtain or fulfill a contract are capitalized and amortized to expense over the life of the contract.

Electricity distribution

Revenue from distribution of electricity is recognized when the services are provided to the customer based on metered consumption, which is adjusted periodically to reflect differences between estimated and actual consumption. The Company recognizes revenue in an amount that corresponds directly with the services delivered and the amount invoiced.

Customer contributions for extensions to plant are recognized as revenue over the life of the related asset.

Franchise fees

Municipal governments charge franchise fees to the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fees do not represent a separate performance obligation to a customer and are recovered through utility transmission and distribution prices. The recovery is part of the provision of continuous electricity transmission and distribution service performance obligation. Franchise fees invoiced to customers are recognized as revenues.

SHORT-TERM EMPLOYEE BENEFITS

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

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

INCOME TAXES

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

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

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

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

CASH

Cash consist of cash at bank less outstanding cheques.

INVENTORIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	15 to 75 years	42 years	2.4%
Electricity distribution equipment	26 to 103 years	33 years	3.0%
Buildings	40 years	38 years	2.6%
Other plant, equipment and machinery	5 to 50 years	17 years	5.8%

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

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 60 and 80 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

PROVISIONS

The Company recognizes provisions when:

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

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

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

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

CONTINGENCIES

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

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

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

Offsetting financial instruments

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

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

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

Derecognition of financial instruments

Financial assets are derecognized:

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

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

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

Fair value hierarchy

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

The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

From January 1, 2018, the Company applies the expected credit loss allowance matrix based on historical credit loss experience, aging of financial assets, default probabilities, forward-looking information specific to the counterparty, and industry-specific economic outlooks.

For accounts receivable and contract assets, the Company estimates credit loss allowances at initial recognition and throughout the life of the receivable.

RETIREMENT BENEFITS

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2017.

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

Standard	Description	Effective Date
IFRS 16 Leases	This standard replaced IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance, however, the new standard may change the accounting treatment of certain components of lessor contracts and sub-leasing arrangements. The Company is in the process of finalizing its calculations using the modified retrospective approach effective January 1, 2019, without restatement of comparative information. The Company has elected to use certain practical expedients: • Leases of low-value assets and short-term leases that have a lease term of twelve months or less will not be recognized in the balance sheet on January 1, 2019. Payments on these leases will continue to be recognized as a lease expense generally on a straight-line basis over the lease term; and • Right-of-use assets will be measured with an equivalent value recorded for the related lease liabilities. The adoption of the new standard is not expected to have a material impact on the Company's financial statements at January 1, 2019.	Effective for annual periods on or after January 1, 2019.