

# **ATCO**

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**G R O U P**

**ATCO LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015**

# ATCO LTD.

## CONSOLIDATED STATEMENT OF EARNINGS

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2015	2014	2015	2014
<i>(millions of Canadian Dollars except per share data)</i>					
<b>Revenues</b>		<b>985</b>	1,038	<b>3,004</b>	3,378
<b>Costs and expenses</b>					
Salaries, wages and benefits		(163)	(179)	(478)	(531)
Energy transmission and transportation		(46)	(42)	(142)	(126)
Plant and equipment maintenance		(59)	(76)	(204)	(179)
Fuel costs		(45)	(114)	(194)	(361)
Purchased power		(18)	(14)	(57)	(48)
Materials and consumables		(183)	(138)	(361)	(434)
Depreciation, amortization and impairment		(143)	(132)	(428)	(406)
Franchise fees		(36)	(35)	(150)	(164)
Property and other taxes		(20)	(20)	(68)	(73)
Other		(64)	(74)	(193)	(201)
		(777)	(824)	(2,275)	(2,523)
		208	214	729	855
<b>Gain on sales of operations</b>		-	160	-	160
<b>Earnings from investment in joint ventures</b>		4	3	6	11
<b>Operating profit</b>		<b>212</b>	377	<b>735</b>	1,026
Interest income		4	4	9	8
Interest expense		(74)	(77)	(219)	(231)
<b>Net finance costs</b>		<b>(70)</b>	(73)	<b>(210)</b>	(223)
<b>Earnings before income taxes</b>		<b>142</b>	304	<b>525</b>	803
<b>Income taxes</b>	4	<b>(38)</b>	(58)	<b>(200)</b>	(185)
<b>Earnings for the period</b>		<b>104</b>	246	<b>325</b>	618
<b>Earnings attributable to:</b>					
Class I and Class II Shares		53	133	155	326
Non-controlling interests		51	113	170	292
		104	246	325	618
<b>Earnings per Class I and Class II Share</b>	9	<b>\$ 0.46</b>	\$ 1.16	<b>\$ 1.35</b>	\$ 2.84
<b>Diluted earnings per Class I and Class II Share</b>	9	<b>\$ 0.46</b>	\$ 1.15	<b>\$ 1.34</b>	\$ 2.82

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

# ATCO LTD. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
<b>Earnings for the period</b>	<b>104</b>	246	<b>325</b>	618
<b>Other comprehensive income (loss), net of income taxes:</b>				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits <sup>(1)</sup>	<b>3</b>	15	<b>20</b>	(122)
Share of other comprehensive income (loss) of joint ventures <sup>(2)</sup>	<b>1</b>	(3)	<b>(2)</b>	(2)
	<b>4</b>	12	<b>18</b>	(124)
Items that have been or may be reclassified subsequently to earnings:				
Cash flow hedges <sup>(3)</sup>	<b>9</b>	4	<b>(4)</b>	13
Cash flow hedges reclassified to earnings <sup>(4)</sup>	<b>1</b>	-	<b>(1)</b>	(3)
Foreign currency translation adjustment <sup>(2)</sup>	<b>4</b>	(13)	<b>31</b>	23
	<b>14</b>	(9)	<b>26</b>	33
	<b>18</b>	3	<b>44</b>	(91)
<b>Comprehensive income for the period</b>	<b>122</b>	249	<b>369</b>	527
<b>Comprehensive income attributable to:</b>				
Class I and Class II Shares	<b>65</b>	135	<b>187</b>	280
Non-controlling interests	<b>57</b>	114	<b>182</b>	247
	<b>122</b>	249	<b>369</b>	527

(1) Net of income taxes of \$(1) million and \$(7) million for the three and nine months ended September 30, 2015, respectively (2014 – \$(4) million and \$41 million).

(2) Net of income taxes of nil.

(3) Net of income taxes of \$(4) million and \$1 million for the three and nine months ended September 30, 2015, respectively (2014 – \$(1) million and \$(5) million).

(4) Net of income taxes of nil for the three and nine months ended September 30, 2015, respectively (2014 – nil and \$1 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

# ATCO LTD.

## CONSOLIDATED BALANCE SHEET

<i>(millions of Canadian Dollars)</i>	Note	September 30 2015	December 31 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		858	595
Accounts receivable		599	744
Finance lease receivables		7	20
Inventories		130	110
Prepaid expenses and other current assets		85	80
		<b>1,679</b>	1,549
<b>Non-current assets</b>			
Property, plant and equipment	6	15,966	15,117
Intangibles		423	416
Goodwill		71	71
Investment in joint ventures		154	147
Finance lease receivables		284	290
Other assets		85	99
<b>Total assets</b>		<b>18,662</b>	17,689
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness		-	5
Accounts payable and accrued liabilities		768	974
Asset retirement obligations and other provisions		37	46
Other current liabilities		12	26
Long-term debt	7	4	83
Non-recourse long-term debt		15	15
		<b>836</b>	1,149
<b>Non-current liabilities</b>			
Deferred income tax liabilities	4	945	778
Asset retirement obligations and other provisions		178	172
Retirement benefit obligations		422	445
Deferred revenues		1,644	1,512
Other liabilities		54	68
Long-term debt	7	7,667	7,173
Non-recourse long-term debt		102	112
<b>Total liabilities</b>		<b>11,848</b>	11,409
<b>EQUITY</b>			
<b>Class I and Class II Share owners' equity</b>			
Class I and Class II Shares	9	162	161
Contributed surplus		11	11
Retained earnings		3,125	3,010
Accumulated other comprehensive income		8	(14)
		<b>3,306</b>	3,168
<b>Non-controlling interests</b>		<b>3,508</b>	3,112
<b>Total equity</b>		<b>6,814</b>	6,280
<b>Total liabilities and equity</b>		<b>18,662</b>	17,689

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

# ATCO LTD.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity Owners of the Company							Total Equity
	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-Controlling Interests	
<i>(millions of Canadian Dollars)</i>								
December 31, 2013		159	12	2,717	(28)	2,860	3,153	6,013
Earnings for the period		-	-	326	-	326	292	618
Equity preferred shares redeemed by subsidiary company		-	-	(2)	-	(2)	(158)	(160)
Shares issued, purchased and cancelled		-	-	(6)	-	(6)	30	24
Dividends	10	-	-	(74)	-	(74)	(147)	(221)
Share-based compensation		2	(2)	2	-	2	(1)	1
Other comprehensive loss		-	-	-	(46)	(46)	(45)	(91)
Losses on retirement benefits transferred to retained earnings		-	-	(68)	68	-	-	-
Changes in ownership interest in subsidiary company <sup>(1)</sup>		-	-	34	-	34	(34)	-
September 30, 2014		161	10	2,929	(6)	3,094	3,090	6,184
December 31, 2014		161	11	3,010	(14)	3,168	3,112	6,280
Earnings for the period		-	-	155	-	155	170	325
Equity preferred shares issued by subsidiary company, net of issue costs	11	-	-	-	-	-	368	368
Shares issued, purchased and cancelled		-	-	(1)	-	(1)	35	34
Dividends	10	-	-	(86)	-	(86)	(154)	(240)
Share-based compensation		1	-	3	-	4	(2)	2
Other comprehensive income		-	-	-	32	32	12	44
Gains on retirement benefits transferred to retained earnings		-	-	10	(10)	-	-	-
Changes in ownership interest in subsidiary company <sup>(1)</sup>		-	-	34	-	34	(34)	-
Other		-	-	-	-	-	1	1
September 30, 2015		162	11	3,125	8	3,306	3,508	6,814

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

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

# ATCO LTD.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions of Canadian Dollars)</i>	2015	2014	2015	2014
<b>Operating activities</b>				
Earnings for the period	104	246	325	618
Adjustments for:				
Depreciation, amortization and impairment	143	132	428	406
Gain on sales of operations	-	(160)	-	(160)
Earnings from investment in joint ventures, net of dividends and distributions received	2	4	12	10
Income taxes	38	58	200	185
Unearned availability incentives	(7)	2	(26)	1
Contributions by customers for extensions to plant	31	21	172	130
Amortization of customer contributions	(15)	(11)	(39)	(35)
Net finance costs	70	73	210	223
Income taxes paid	(6)	(12)	(65)	(90)
Other	10	20	18	12
	370	373	1,235	1,300
Changes in non-cash working capital	64	62	46	17
<b>Cash flow from operations</b>	<b>434</b>	<b>435</b>	<b>1,281</b>	<b>1,317</b>
<b>Investing activities</b>				
Additions to property, plant and equipment	(384)	(584)	(1,124)	(1,596)
Proceeds on disposal of property, plant and equipment	2	12	1	17
Additions to intangibles	(17)	(20)	(45)	(72)
Proceeds on sale of information technology services	-	204	-	204
Investment in joint venture	(10)	(35)	(20)	(35)
Changes in non-cash working capital	9	17	(144)	4
Other	(11)	(8)	(10)	(20)
	(411)	(414)	(1,342)	(1,498)
<b>Financing activities</b>				
Net issue (repayment) of short-term debt	(450)	(525)	-	60
Issue of long-term debt	475	1,020	517	1,127
Repayment of long-term debt	(37)	(36)	(95)	(195)
Repayment of non-recourse long-term debt	(3)	(8)	(10)	(23)
Issue of equity preferred shares by subsidiary company	375	-	375	-
Redemption of equity preferred shares by subsidiary company	-	-	-	(160)
Issue of Class A shares by subsidiary company	-	-	1	3
Purchase of Class I Shares	(1)	(6)	(1)	(4)
Dividends paid to Class I and Class II Share owners	(29)	(24)	(86)	(74)
Dividends paid to non-controlling interests in subsidiary company	(40)	(39)	(119)	(117)
Interest paid	(83)	(65)	(268)	(240)
Other	(11)	(6)	(11)	(6)
	196	311	303	371
<b>Foreign currency translation</b>	<b>12</b>	<b>8</b>	<b>26</b>	<b>11</b>
<b>Cash position <sup>(1)</sup></b>				
Increase	231	340	268	201
Beginning of period	627	602	590	741
<b>End of period</b>	<b>858</b>	<b>942</b>	<b>858</b>	<b>942</b>

(1) Cash position consists of cash and cash equivalents less current bank indebtedness and includes \$53 million (2014 - \$54 million) which is not available for general use by the Company.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

# ATCO LTD.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

SEPTEMBER 30, 2015

*(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 700, 909-11th Avenue SW, Calgary, Alberta, T2R 1N6. The Company is controlled by Sentrgraf Enterprises Ltd. and its controlling share owner, R.D. Southern.

ATCO Ltd. is engaged in the following business activities:

- Structures and Logistics (manufacturing, logistics and noise abatement);
- Utilities (pipelines, natural gas and electricity transmission and distribution); and
- Energy (power generation and sales, industrial water infrastructure, natural gas gathering, processing, storage and liquids extraction).

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

Principal operating subsidiaries are:

- ATCO Structures & Logistics (75.5 per cent owned) and its subsidiaries. On a consolidated basis, the Company owns 88.6 per cent of ATCO Structures & Logistics; and
- Canadian Utilities Limited (53.2 per cent owned), its subsidiaries, and its 24.5 per cent investment in ATCO Structures & Logistics.

### 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. 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, 2014, 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 financial statements, except for income taxes and accounting policies that have changed as disclosed below. 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 Committee, on behalf of the Board of Directors, on October 22, 2015.

#### BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, defined benefit pension and other employee retirement benefit liabilities and cash-settled share-based compensation liabilities.

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, changes in natural gas liquids prices and natural gas costs, 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.

## **CHANGE IN ACCOUNTING POLICIES**

### **Financial Instruments**

The Company adopted IFRS 9 (2013) *Financial Instruments* effective January 1, 2015. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and previous versions of IFRS 9. It includes revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting.

Previously, the Company classified financial assets when they were first recognized as fair value through profit or loss, available for sale, held to maturity investments or loans and receivables. Under IFRS 9 (2013), the Company classifies financial assets under the same two measurement categories as financial liabilities; amortized cost or fair value through profit and loss. Financial assets are classified as amortized cost if the purpose of the Company's business model is to hold the financial assets for collecting cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. All other financial assets are classified as fair value through profit or loss. All of the Company's financial assets and financial liabilities as at December 31, 2014 will continue to be classified and measured at amortized cost with the exception of derivative financial instruments disclosed below. The adoption of this standard has not resulted in any changes to comparative figures.

The Company has not yet adopted IFRS 9 (2014) *Financial Instruments* that incorporates the new impairment model that assesses financial assets based on expected losses rather than incurred losses as applied in IAS 39. This final standard will replace IFRS 9 (2013) and is effective for annual periods on or after January 1, 2018.

### **Derivative Financial Instruments**

As part of the early adoption of IFRS 9 (2013), the accounting for derivative financial instruments, including hedge accounting, is now addressed under the new standard.

Previously, all derivative financial instruments, including derivatives embedded in other financial instruments or host contracts, were measured at fair value. Under IFRS 9 (2013), derivatives embedded in financial asset host contracts are no longer required to be separated. Instead, the contract is required to be classified in its entirety at either amortized cost or fair value. For those measured at fair value, the gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

By early adopting hedge accounting under IFRS 9 (2013), the Company is able to better align its hedge accounting policy with its risk management objectives. Hedge documentation of the relationship between the derivative and the hedged item at inception of the hedge is still required. Assessment at each reporting period can be performed qualitatively if both the critical terms of the hedging relationship and the economic relationship between the hedged item and hedging instrument continue to remain the same or similar. If the mismatch in terms is significant, a quantitative assessment is required. Ineffectiveness, if any, is measured at the end of each reporting period.

If the risk management hedge ratio used to form the economic relationship of the hedged item and hedging instrument changes, rebalancing of the hedging relationship is required. Under this circumstance, an adjustment to the quantities of the hedged item or hedging instrument would be allowed to realign the hedging relationship to its original risk management hedge ratio. The Company can only discontinue hedge accounting prospectively if there is no longer an economic relationship between the hedged item and hedging instrument, the risk management objective changes, the derivative no longer is designated as a hedging instrument, or the underlying hedged item is derecognized.

### 3. SEGMENTED INFORMATION

#### SEGMENTED RESULTS THREE MONTHS ENDED SEPTEMBER 30

<b>2015</b>	<b>Structures &amp; Logistics</b>	<b>Utilities</b>	<b>Energy</b>	<b>ATCO Australia</b>	<b>Corporate and Other</b>	<b>Intersegment Eliminations</b>	<b>Consolidated</b>
<b>2014</b>							
Revenues – external	<b>279</b>	<b>494</b>	<b>147</b>	<b>63</b>	<b>2</b>	<b>–</b>	<b>985</b>
	238	466	245	70	19	–	1,038
Revenues – intersegment	<b>1</b>	<b>10</b>	<b>–</b>	<b>–</b>	<b>6</b>	<b>(17)</b>	<b>–</b>
	1	2	2	–	31	(36)	–
Revenues	<b>280</b>	<b>504</b>	<b>147</b>	<b>63</b>	<b>8</b>	<b>(17)</b>	<b>985</b>
	239	468	247	70	50	(36)	1,038
Operating expenses <sup>(1)</sup>	<b>(253)</b>	<b>(277)</b>	<b>(91)</b>	<b>(22)</b>	<b>(5)</b>	<b>14</b>	<b>(634)</b>
	(201)	(257)	(193)	(31)	(45)	35	(692)
Depreciation, amortization and impairment	<b>(12)</b>	<b>(98)</b>	<b>(23)</b>	<b>(10)</b>	<b>(2)</b>	<b>2</b>	<b>(143)</b>
	(13)	(89)	(18)	(10)	(4)	2	(132)
Gain (loss) on sale of information technology services	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	–	–	–	(3)	163	–	160
Earnings from investment in joint ventures	<b>1</b>	<b>–</b>	<b>2</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>4</b>
	2	–	–	1	–	–	3
Net finance costs	<b>–</b>	<b>(55)</b>	<b>(8)</b>	<b>(8)</b>	<b>3</b>	<b>(2)</b>	<b>(70)</b>
	1	(59)	(6)	(10)	2	(1)	(73)
Earnings before income taxes	<b>16</b>	<b>74</b>	<b>27</b>	<b>24</b>	<b>4</b>	<b>(3)</b>	<b>142</b>
	28	63	30	17	166	–	304
Income taxes	<b>(4)</b>	<b>(19)</b>	<b>(8)</b>	<b>(7)</b>	<b>(1)</b>	<b>1</b>	<b>(38)</b>
	(8)	(16)	(9)	(5)	(20)	–	(58)
Earnings for the period	<b>12</b>	<b>55</b>	<b>19</b>	<b>17</b>	<b>3</b>	<b>(2)</b>	<b>104</b>
	20	47	21	12	146	–	246
Adjusted earnings	<b>11</b>	<b>37</b>	<b>11</b>	<b>11</b>	<b>(4)</b>	<b>–</b>	<b>66</b>
	17	49	11	9	(1)	–	85
Capital expenditures <sup>(4)</sup>	<b>9</b>	<b>329</b>	<b>20</b>	<b>22</b>	<b>53</b>	<b>(5)</b>	<b>428</b>
	31	548	15	22	2	–	618

**SEGMENTED RESULTS**  
**NINE MONTHS ENDED SEPTEMBER 30**

<b>2015</b>	<b>Structures &amp; Logistics</b>	<b>Utilities</b>	<b>Energy</b>	<b>ATCO Australia</b>	<b>Corporate and Other</b>	<b>Intersegment Eliminations</b>	<b>Consolidated</b>
<b>2014</b>							
Revenues – external	<b>600</b>	<b>1,686</b>	<b>531</b>	<b>180</b>	<b>7</b>	<b>–</b>	<b>3,004</b>
	711	1,641	767	205	54	–	3,378
Revenues – intersegment	<b>1</b>	<b>26</b>	<b>3</b>	<b>–</b>	<b>17</b>	<b>(47)</b>	<b>–</b>
	1	4	5	–	127	(137)	–
Revenues	<b>601</b>	<b>1,712</b>	<b>534</b>	<b>180</b>	<b>24</b>	<b>(47)</b>	<b>3,004</b>
	712	1,645	772	205	181	(137)	3,378
Operating expenses <sup>(1)</sup>	<b>(543)</b>	<b>(862)</b>	<b>(403)</b>	<b>(73)</b>	<b>(11)</b>	<b>45</b>	<b>(1,847)</b>
	(612)	(824)	(602)	(82)	(131)	134	(2,117)
Depreciation, amortization and impairment	<b>(46)</b>	<b>(289)</b>	<b>(62)</b>	<b>(29)</b>	<b>(6)</b>	<b>4</b>	<b>(428)</b>
	(36)	(260)	(57)	(43)	(14)	4	(406)
Gain (loss) on sale of information technology services	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	–	–	–	(3)	163	–	160
Earnings (loss) from investment in joint ventures	<b>(9)</b>	<b>–</b>	<b>10</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>6</b>
	3	–	3	5	–	–	11
Net finance costs	<b>(1)</b>	<b>(165)</b>	<b>(22)</b>	<b>(27)</b>	<b>9</b>	<b>(4)</b>	<b>(210)</b>
	–	(156)	(22)	(50)	7	(2)	(223)
Earnings before income taxes	<b>2</b>	<b>396</b>	<b>57</b>	<b>56</b>	<b>16</b>	<b>(2)</b>	<b>525</b>
	67	405	94	32	206	(1)	803
Income taxes	<b>(2)</b>	<b>(165)</b>	<b>(20)</b>	<b>(15)</b>	<b>1</b>	<b>1</b>	<b>(200)</b>
	(20)	(102)	(26)	(12)	(25)	–	(185)
Earnings for the period	<b>–</b>	<b>231</b>	<b>37</b>	<b>41</b>	<b>17</b>	<b>(1)</b>	<b>325</b>
	47	303	68	20	181	(1)	618
Adjusted earnings	<b>14</b>	<b>154</b>	<b>21</b>	<b>16</b>	<b>(4)</b>	<b>–</b>	<b>201</b>
	41	150	36	20	9	1	257
Total assets <sup>(2,3)</sup>	<b>997</b>	<b>14,065</b>	<b>1,717</b>	<b>1,322</b>	<b>584</b>	<b>(23)</b>	<b>18,662</b>
	956	13,389	1,652	1,296	437	(41)	17,689
Capital expenditures <sup>(4)</sup>	<b>46</b>	<b>946</b>	<b>99</b>	<b>57</b>	<b>102</b>	<b>(4)</b>	<b>1,246</b>
	57	1,555	37	61	13	–	1,723

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

(2) Total assets do not reflect adjustments for rate-regulated activities included in adjusted earnings.

(3) 2014 comparative total assets are at December 31, 2014.

(4) Includes additions to property, plant and equipment and intangibles and \$27 million and \$77 million (2014 – \$14 million and \$55 million) of interest capitalized during construction for the three and nine months ended September 30, 2015.

**ADJUSTED EARNINGS**

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses for rate-regulated activities. Adjusted earnings also exclude 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 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.

<b>2015</b>	<b>Structures &amp; Logistics</b>	<b>Utilities</b>	<b>Energy</b>	<b>ATCO Australia</b>	<b>Corporate and Other</b>	<b>Intersegment Eliminations</b>	<b>Consolidated</b>
<b>2014</b>							
Adjusted earnings (loss)	<b>11</b>	<b>37</b>	<b>11</b>	<b>11</b>	<b>(4)</b>	<b>–</b>	<b>66</b>
	17	49	11	9	(1)	–	85
Restructuring costs	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3)</b>
	–	–	–	–	–	–	–
Gain (loss) on sales of information technology services	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	–	–	–	(2)	76	–	74
Rate-regulated activities	<b>–</b>	<b>(7)</b>	<b>–</b>	<b>(1)</b>	<b>–</b>	<b>(2)</b>	<b>(10)</b>
	–	(24)	–	(1)	–	(1)	(26)
Earnings (loss) attributable to Class I and Class II Shares	<b>10</b>	<b>29</b>	<b>10</b>	<b>10</b>	<b>(4)</b>	<b>(2)</b>	<b>53</b>
	17	25	11	6	75	(1)	133
Earnings attributable to non-controlling interests							<b>51</b>
							113
Earnings for the period							<b>104</b>
							246

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

<b>2015</b>	<b>Structures &amp; Logistics</b>	<b>Utilities</b>	<b>Energy</b>	<b>ATCO Australia</b>	<b>Corporate and Other</b>	<b>Intersegment Eliminations</b>	<b>Consolidated</b>
<b>2014</b>							
Adjusted earnings	<b>14</b>	<b>154</b>	<b>21</b>	<b>16</b>	<b>(4)</b>	<b>–</b>	<b>201</b>
	41	150	36	20	9	1	257
Restructuring costs	<b>(1)</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>(6)</b>
	–	–	–	–	–	–	–
Gain (loss) on sales of information technology services	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	–	–	–	(2)	76	–	74
Impairment	<b>(13)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(13)</b>
	–	–	–	(6)	–	–	(6)
Rate-regulated activities:							
Change in income taxes	<b>–</b>	<b>(34)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(34)</b>
	–	–	–	–	–	–	–
Other	<b>–</b>	<b>1</b>	<b>–</b>	<b>7</b>	<b>–</b>	<b>(1)</b>	<b>7</b>
	–	5	–	(2)	–	(2)	1
Earnings (loss) attributable to Class I and Class II Shares	<b>–</b>	<b>119</b>	<b>19</b>	<b>22</b>	<b>(4)</b>	<b>(1)</b>	<b>155</b>
	41	155	36	10	85	(1)	326
Earnings attributable to non-controlling interests							<b>170</b>
							292
Earnings for the period							<b>325</b>
							618

### Restructuring costs

For the three and nine months ended September 30, 2015, the Company recorded restructuring costs of \$3 million and \$6 million after-tax and non-controlling interests that were not in the normal course of business. These costs were primarily related to staff reductions and associated severance costs as well as the restructuring of a fuel supply contract in ATCO Power.

### Impairment

In 2015, the Company adjusted for a significant impairment relating to ATCO Structures & Logistics' lodge assets. The impairment was included in depreciation, amortization and impairment expense with the exception of the impairment relating to the joint venture asset which reduced equity earnings from investment in joint ventures (see Note 5).

In 2014, the Company adjusted for a significant impairment relating to ATCO Power Australia's Bulwer Island power station (BIEP). The impairment was included in depreciation, amortization and impairment expense (see Note 5).

### Rate-regulated activities

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Consequently, the Company does not recognize assets and liabilities arising from rate-regulated activities under IFRS.

Before adopting IFRS, the Company used 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. 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 segment disclosures on this basis.

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

	<b>Rate-Regulated Accounting Treatment</b>	<b>IFRS Treatment</b>
1.	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.	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.
3.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company recognizes earnings when customer rates are changed and amounts are billed to customers.
4.	Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group are deemed to have been realized to the extent that the transfer price on such facilities is recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Company then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

Timing adjustments for rate-regulated activities are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
<b>Additional revenues billed in current period:</b>				
Future removal and site restoration costs <sup>(1)</sup>	4	4	15	19
Finance costs on major transmission capital projects <sup>(2)</sup>	9	4	26	17
Impact of colder temperatures on revenues <sup>(3)</sup>	–	–	–	5
Other	2	(2)	4	2
	<b>15</b>	<b>6</b>	<b>45</b>	<b>43</b>
<b>Revenues to be billed in future period:</b>				
Deferred income taxes <sup>(4)</sup>	(14)	(9)	(41)	(33)
Deferred income taxes due to increase in provincial corporate tax rate <sup>(4)</sup>	–	–	(34)	–
Transmission access payments <sup>(5)</sup>	(2)	(6)	(7)	(7)
Transmission capital deferral <sup>(6)</sup>	(3)	(1)	(8)	(2)
Impact of warmer temperatures on revenues <sup>(3)</sup>	–	–	(7)	–
Impact of inflation on rate base for ATCO Gas Australia <sup>(7)</sup>	(2)	(1)	(5)	(4)
Other	–	–	(1)	(2)
	<b>(21)</b>	<b>(17)</b>	<b>(103)</b>	<b>(48)</b>
<b>Regulatory decisions related to current and prior periods:</b>				
Generic cost of capital decision <sup>(8)</sup>	2	–	24	–
Capital tracker decision <sup>(8)</sup>	–	–	6	–
Interim rates decisions <sup>(8)</sup>	4	(12)	(3)	(12)
Evergreen decision <sup>(8)</sup>	–	1	–	15
ATCO Gas Australia access arrangement decision <sup>(8)</sup>	–	–	10	–
Transmission capital deferral refunds <sup>(8)</sup>	(11)	–	(11)	(5)
ATCO Gas Australia appeal decision	–	–	–	2
Weather refunds <sup>(3)</sup>	–	–	(3)	–
Other	3	(3)	9	8
	<b>(2)</b>	<b>(14)</b>	<b>32</b>	<b>8</b>
<b>Intercompany profits:</b>				
Intercompany profits related to construction of property, plant and equipment and intangibles <sup>(9)</sup>	(2)	(1)	(1)	(2)
	<b>(10)</b>	<b>(26)</b>	<b>(27)</b>	<b>1</b>

Descriptions of the adjustments, and the timing of recovery or refund for each, are as follows:

Description	Timing of Recovery or Refund
1. Removal and site restoration costs billed to customers are based on the costs forecast to be incurred in future periods. Customers fund these expected costs over the estimated useful life of the related assets. Under rate-regulated accounting, billings to customers in excess of costs incurred in the current period are deferred.	The deferred revenues will be recognized in adjusted earnings when removal and site restoration costs are incurred.

Description	Timing of Recovery or Refund
2. Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred.	The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.
3. ATCO Gas' customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.	ATCO Gas may apply to the Alberta Utilities Commission (AUC) for recoveries from or refunds to customers when the net revenue variances exceed \$7 million at April 30th of any year for either of its North or South systems.
4. Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Deferred income taxes are not billed to customers unless directed to do so by the regulator. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods.	The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.
<p>In the second quarter of 2015, the Government of Alberta announced an increase in the provincial corporate tax rate from 10 per cent to 12 per cent effective July 1, 2015. As a result of this change, the Company increased income taxes and reduced earnings for the nine months ended September 30, 2015 by \$69 million (see Note 4). Of the \$69 million increase in income taxes (\$37 million after non-controlling interests), \$64 million (\$34 million after non-controlling interests) relates to deferred income taxes relating to the Alberta Utilities.</p>	
5. Transmission access payments billed to customers by ATCO Electric are based on the forecast payments to be incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods.	Recoveries from or refunds to customers of the differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the next 6 to 12 months.
6. For major transmission capital projects, ATCO Electric's billings to customers include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the Alberta Electric System Operator (AESO), will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred.	Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.

Description	Timing of Recovery or Refund
<p>7. ATCO Gas Australia earns a return on rate base that excludes inflation. Inflation is accounted for by adjusting the rate base in subsequent periods by the actual rate of inflation; the impact of inflation is billed to customers through recovery of depreciation. Under rate-regulated accounting, an adjustment is made to recognize the inflation component of rate base when it is earned in the current period. Differences between the amounts earned and the amounts billed to customers are deferred.</p>	<p>The inflation-indexed portion of rate base will be recovered from customers over the life of the assets comprising rate base through the recovery of depreciation.</p>
<p>8. The Canadian and Australian utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under rate-regulated accounting, revenues from regulatory decisions that affect current and prior periods are recognized when the decision is received.</p>	<p><b>Generic Cost of Capital Decision</b>  The Utilities recorded a reduction in adjusted earnings of \$25 million in 2015 for an AUC decision which reduced the Return on Equity and deemed common equity ratios for 2013 to 2015. Of the \$25 million recorded in 2015, \$17 million related to 2013 and 2014.</p> <p>Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings; \$1 million has been refunded as at the end of the third quarter of 2015.</p> <p><b>Capital Tracker Decision</b>  ATCO Gas and the distribution operations of ATCO Electric recorded a reduction in adjusted earnings of \$7 million in 2015 for the AUC Performance Based Regulation Capital Tracker decisions for 2013 to 2015. Of the \$7 million recorded in 2015, \$4 million related to 2013 and 2014. Although these decisions included approval of the Company's applied for Capital Tracker programs, the decisions resulted in lower Capital Tracker rates than previously approved primarily due to the AUC requiring the Utilities to use the actual cost of debt in the rate determinations, which was lower than the forecast cost of debt that was previously being used.</p> <p>Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings; \$1 million has been refunded as at the end of the third quarter of 2015.</p>

Description	Timing of Recovery or Refund
	<p><b>Interim Rates Decisions</b></p> <p>In 2015, the transmission operations of ATCO Electric recorded an increase in adjusted earnings of \$14 million for an AUC decision associated with its 2015 to 2017 general rate application. The AUC approved interim rates at 90 per cent of the applied for amount. Under IFRS, earnings are adjusted when the AUC approved revised customer rates are received through future billings; \$11 million has been received as at the end of the third quarter of 2015.</p> <p>In the third quarter of 2014, ATCO Gas and the distribution operations of ATCO Electric recorded adjusted earnings of \$12 million for the period January 1, 2013 to September 30, 2014, resulting from interim rates decision issued by the AUC. Under IFRS, earnings will be recognized when the AUC approves revised customer rates and the amount receivable from customers is collected through future billings.</p> <p><b>Evergreen Decision</b></p> <p>The Utilities recorded a reduction in adjusted earnings of \$14 million in the second quarter of 2014 for an AUC decision which disallowed a portion of the information technology and customer care and billing costs (Evergreen decision) incurred in the period January 1, 2010 to June 30, 2014. An additional reduction of \$1 million was recorded in the third quarter of 2014. In the fourth quarter of 2014, customer rates were adjusted and refunded to customers.</p> <p><b>ATCO Gas Australia Access Arrangement Decision</b></p> <p>In July 2015, the Economic Regulation Authority (ERA) released its final decision for ATCO Gas Australia's next Access Arrangement period (AA4) from July 2014 to December 2019. Among other things, the decision resulted in a reduced return on equity from 10.4 per cent to 7.28 per cent. The decision resulted in a decrease to adjusted earnings of \$10 million in 2015. Of this amount, \$4 million related to 2015 and \$6 million related to 2014. Under IFRS, earnings will be adjusted when the Economic Regulation Authority of Western Australia approves revised customer rates and the amount payable to customers is refunded through future billings.</p> <p><b>Transmission Capital Deferral Refunds</b></p> <p>In 2014 and 2015, ATCO Electric refunded amounts to customers over-collected in 2011 and 2012 for major transmission capital projects.</p>

Description	Timing of Recovery or Refund
9. Under rate-regulated accounting, intercompany profits from transactions with related parties and approved by the regulator for inclusion in rate base are not eliminated on consolidation; they are recognized as earnings in the current period.	Intercompany profits will be recognized as earnings under IFRS as rate base is depreciated and the depreciation is billed to customers over the life of the assets.

#### 4. INCOME TAXES

In interim periods, income taxes are accrued using an estimate of the annual effective tax rate applied to year-to-date earnings. In the second quarter of 2015, the Government of Alberta announced an increase in the provincial corporate tax rate from 10 per cent to 12 per cent effective July 1, 2015. As a result of this change, the Company made an adjustment of \$69 million to current and deferred income taxes in 2015 as follows:

	December 31, 2014 Balance	Nine Months Ended September 30, 2015	Total
Change in Alberta corporate tax rate included in:			
Current income taxes	–	1	1
Deferred income taxes	63	5	68
	63	6	69

Included in the \$69 million increase in income taxes is \$63 million relating to the one-time revaluation of the December 31, 2014 deferred income tax liability.

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

	2015		2014	
Earnings before income taxes	142	%	304	%
Income taxes, at statutory rates	37	26.0	76	25.0
Change in income taxes resulting from increase in provincial corporate tax rate	2	1.4	–	–
Gain on sale of operations	–	–	(19)	(6.2)
Other	(1)	(0.7)	1	0.3
	38	26.7	58	19.1

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

	2015		2014	
Earnings before income taxes	525	%	803	%
Income taxes, at statutory rates	136	26.0	201	25.0
Change in income taxes resulting from increase in provincial corporate tax rate	69	13.1	–	–
Gain on sale of operations	–	–	(19)	(2.4)
Other	(5)	(1.0)	3	0.4
	200	38.1	185	23.0

As the tax rate change came into effect on July 1, 2015, the combined federal and Alberta statutory Canadian income tax rate for 2015 is 26.0 per cent.

## 5. IMPAIRMENT

### IMPAIRMENT OF LODGE ASSETS

In 2015, the Company recognized a pre-tax impairment of \$20 million (\$13 million after-tax and non-controlling interests) in the Structures & Logistics segment, relating to certain lodge assets, one of which is a joint venture asset. The impairment was included in depreciation, amortization and impairment expense with the exception of the impairment relating to the joint venture asset which reduced equity earnings from investment in joint ventures. The Company determined these assets were impaired due to a reduction in contracted rooms and rates charged as a result of continued and sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients.

The recoverable amount of the joint venture lodge asset was calculated based on cash flow projections expected to be derived from the lodge being operational until July 2018. The expected future cash flows were discounted at a pre-tax rate of 15.0 per cent. The remaining lodge assets were closed and are expected to be dismantled. The impairment charge decreased the carrying amount for all impaired lodge assets to nil.

### IMPAIRMENT OF BULWER ISLAND POWER STATION

In 2014, the Company recognized an impairment of \$13 million (\$6 million, after-tax and non-controlling interests), relating to ATCO Power Australia's 33 MW Bulwer Island power station (BIEP) (ATCO Australia segment), which was included in depreciation, amortization and impairment expense. On April 2, 2014, BP announced it will cease refining operations at its oil refinery in Brisbane by mid-2015 and convert to an import terminal. BP was BIEP's only customer and no suitable economic replacement had been identified.

BIEP was jointly owned with Origin Energy and the plant was accounted for as a finance lease. As a result, BIEP's lease receivable had been impaired. The impairment calculation was based on pre-tax cash flow projections of the separation payments due from BP, salvage value of the plant and the expected remaining lease payments assuming a plant closure date of December 31, 2014. The date was updated to May 31, 2015 at December 31, 2014 and the plant subsequently closed on June 23, 2015, at which time the lease receivable was written down to nil. The expected future cash flows were discounted at a pre-tax rate of 12.4 per cent, which was the original effective interest rate of the lease receivable.

## 6. PROPERTY, PLANT AND EQUIPMENT

The Utilities segment continues to make significant investment in utility infrastructure in Alberta, particularly in electricity transmission facilities.

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

	Utility Transmission & Distribution	Power Generation	Land and Buildings	Construction Work-in- Progress	Other	Total
<b>Cost:</b>						
December 31, 2014	13,529	1,980	756	2,390	1,658	20,313
Additions	770	102	36	274	71	1,253
Disposals	(32)	(47)	–	–	(26)	(105)
Changes to asset retirement costs	–	4	–	–	6	10
Foreign exchange rate adjustment	(10)	–	–	4	3	(3)
September 30, 2015	14,257	2,039	792	2,668	1,712	21,468
<b>Accumulated depreciation:</b>						
December 31, 2014	3,136	1,208	169	–	683	5,196
Depreciation and impairment	269	53	11	–	69	402
Disposals	(32)	(45)	–	–	(20)	(97)
Foreign exchange rate adjustment	(1)	–	–	–	2	1
September 30, 2015	3,372	1,216	180	–	734	5,502
<b>Net book value:</b>						
December 31, 2014	10,393	772	587	2,390	975	15,117
September 30, 2015	10,885	823	612	2,668	978	15,966

The additions of property, plant and equipment included \$77 million (September 30, 2014 – \$55 million) of interest capitalized.

Construction work-in-progress additions are net of transfers of \$618 million (September 30, 2014 – \$669 million) to other property, plant and equipment categories.

## 7. LONG TERM DEBT

On July 27, 2015, CU Inc., a wholly owned subsidiary of Canadian Utilities Limited, issued \$400 million of 3.964 per cent debentures maturing on July 27, 2045.

## 8. FAIR VALUE MEASUREMENTS

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. Fair value is based on quoted market prices when available; models using observable market data and transaction specific factors are also used to estimate fair value.

Fair value measurements are categorized into levels within a fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. 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).

## FAIR VALUE OF NON-DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate carrying value due to their short-term nature.

The fair values of the Company's non-derivative financial instruments measured at other than fair value are as follows:

Recurring Measurements	Fair Value Hierarchy Level	September 30, 2015		December 31, 2014	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>					
Amortized Cost:					
Lease receivables <sup>(1)</sup>	Level 2	291	473	310	504
<b>Financial Liabilities</b>					
Amortized Cost:					
Long-term debt <sup>(2)</sup>	Level 2	7,671	8,409	7,256	8,270
Non-recourse long-term debt <sup>(2)</sup>	Level 2	117	147	127	156

(1) Recorded at amortized cost. Fair values are determined using a risk-adjusted, pre-tax interest rate to discount future cash receipts.

(2) Recorded at amortized cost. Fair values are 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.

## FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of the Company's derivative financial instruments are as follows:

Recurring Measurements	Fair Value Hierarchy Level	September 30, 2015		December 31, 2014	
		Notional Principal or Volume <sup>(1)</sup>	Fair Value Receivable (Payable) <sup>(3)</sup>	Notional Principal or Volume <sup>(1)</sup>	Fair Value Receivable (Payable) <sup>(3)</sup>
<b>Subject to Hedge Accounting</b>					
Interest rate swaps	Level 2	721	(5)	728	(1)
Natural gas purchase contracts <sup>(2)</sup>	Level 2	14,318,000 GJ	(3)	2,452,000 GJ	(3)
Forward power sales contracts <sup>(2)</sup>	Level 2	2,193,786 MWh	1	538,872 MWh	5
<b>Not Subject to Hedge Accounting</b>					
Natural gas purchase contracts <sup>(2)</sup>	Level 2	5,142,000 GJ	–	–	–
Forward power sales contracts <sup>(2)</sup>	Level 2	250,624 MWh	–	41,344 MWh	–
Foreign currency forward contracts	Level 2	47	3	41	2

(1) The notional principal is not recorded in the consolidated financial statements as it does not represent amounts that are exchanged by the counterparties.

(2) Notional amounts for the natural gas purchase contracts are the maximum volumes that can be purchased over the terms of the contracts. Notional amounts for the forward sale and purchase contracts are the commodity volumes committed in the contracts.

(3) Fair values for the interest rate swaps and foreign currency forward contracts were estimated using period-end market rates. Fair values for the natural gas purchase contracts were estimated using period-end market prices for natural gas and an estimate of implied volatility based on historic market prices. Fair values for forward power sales contracts were estimated using forward period-end market prices. These fair values approximate the amount that the Company would either pay or receive to settle the contracts at September 30, 2015, and December 31, 2014.

The Company's hedging strategies for which hedge accounting is applied consists of the following:

- **Interest Rate Risk:** The Company has variable interest rates on its long-term debt and non-recourse long-term debt. Interest rate swap agreements are entered into and designated as cash flow hedges to fix interest rates. Consequently, the exposure to fluctuations in market interest rates is limited.
- **Commodity Price Risk:** The Company's electricity generation business is exposed to commodity price movements, particularly to the market price of electricity and natural gas. The Company entered into natural gas purchase contracts and forward power sales contracts to manage its exposure to electricity and natural gas market price movements.

For the three and nine months ended September 30, 2015, there were no sources of hedge ineffectiveness.

## 9. CLASS I AND CLASS II SHARES AND EARNINGS PER SHARE

There were 101,531,923 (2014 – 101,501,623) Class I Non-Voting Shares and 13,609,505 (2014 – 13,637,405) Class II Voting Shares outstanding on September 30, 2015. In addition, there were 801,350 options to purchase Class I Non-Voting Shares outstanding at September 30, 2015, under the Company's stock option plan. From October 1, 2015, to October 21, 2015, no stock options were granted, 2,050 stock options were cancelled, 1,200 stock options were exercised, no Class II Voting Shares were converted to Class I Non-Voting Shares and no Class I Non-Voting Shares were purchased under the Company's normal course issuer bid.

### EARNINGS PER SHARE

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	
	2015	2014	2015	2014
<b>Average shares:</b>				
Weighted average shares outstanding	<b>114,848,108</b>	114,944,507	<b>114,834,829</b>	114,854,318
Effect of dilutive stock options	<b>184,821</b>	286,858	<b>223,849</b>	304,357
Effect of dilutive mid-term incentive plan	<b>314,432</b>	310,459	<b>314,668</b>	320,382
Weighted average dilutive shares outstanding	<b>115,347,361</b>	115,541,824	<b>115,373,346</b>	115,479,057
<b>Earnings for earnings per share calculation:</b>				
Earnings for the period	<b>104</b>	246	<b>325</b>	618
Non-controlling interests	<b>(51)</b>	(113)	<b>(170)</b>	(292)
	<b>53</b>	133	<b>155</b>	326
<b>Earnings and diluted earnings per Class I and Class II Share:</b>				
Earnings per Class I and Class II Share	<b>\$0.46</b>	\$1.16	<b>\$1.35</b>	\$2.84
Diluted earnings per Class I and Class II Share	<b>\$0.46</b>	\$1.15	<b>\$1.34</b>	\$2.82

### NORMAL COURSE ISSUER BID

On March 3, 2014, ATCO Ltd. began a normal course issuer bid to purchase up to 2,029,496 outstanding Class I Non-Voting Shares. The bid expired on February 27, 2015. From March 3, 2014, to February 27, 2015, 130,000 shares were purchased, all of which were purchased in 2014 for \$6 million. The purchases resulted in a decrease to share capital and retained earnings of nil and \$6 million, respectively.

On March 2, 2015, ATCO Ltd. began a new normal course issuer bid to purchase up to 2,030,168 outstanding Class I Non-Voting Shares. The bid will expire on February 29, 2016. From March 2, 2015, to October 21, 2015, 41,800 shares were purchased.

## 10. DIVIDENDS

Cash dividends declared and paid per share are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
<i>(dollars per share)</i>				
Class I and Class II Shares	<b>0.2475</b>	0.2150	<b>0.7425</b>	0.6450

The Company's policy is to pay dividends quarterly on its Class I and Class II Shares. Increases in the quarterly dividend are addressed by the Board of Directors in the first quarter of each year. The payment of any dividend is at the discretion of the Board of Directors and depends on the financial condition of the Company and other factors.

## 11. NON-CONTROLLING INTERESTS

### SERIES EE PREFERRED SHARES

On August 7, 2015, Canadian Utilities Limited issued \$125 million Cumulative Redeemable Second Preferred Shares Series EE at \$25.00 per share under its base shelf prospectus. Holders are entitled to receive fixed cumulative preferential cash dividends, payable quarterly as and when declared by the Board of Directors, at an annual rate of \$1.3125 per share, or 5.25 per cent.

The Series EE Preferred Shares are redeemable in whole or in part at the option of Canadian Utilities Limited starting September 1, 2020, at the stated value plus a 4 per cent premium per share for the next twelve months plus accrued and unpaid dividends. The redemption premium declines by 1 per cent in each succeeding twelve month period until September 1, 2024.

### SERIES FF PREFERRED SHARES

On September 24, 2015, Canadian Utilities Limited issued \$250 million Cumulative Redeemable Second Preferred Shares Series FF at \$25.00 per share under its base shelf prospectus. Holders are entitled to receive fixed cumulative preferential cash dividends, payable quarterly for an initial period of five years, as and when declared by the Board of Directors, at an annual rate of \$1.125 per share, or 4.50 per cent. Thereafter, the dividend rate will reset every five years to the then 5-Year Government of Canada Bond yield plus 3.69 per cent, and in any event, no less than 4.50 per cent.

On December 1, 2020, and on December 1 of every fifth year thereafter, Canadian Utilities Limited may redeem the Series FF Preferred Shares in whole or in part at the stated value plus all accrued and unpaid dividends. Holders may elect to convert any or all of their Series FF Preferred Shares into an equal number of Cumulative Redeemable Second Preferred Shares Series GG on December 1, 2020, and on December 1 of every fifth year thereafter. Holders of the Series GG Preferred Shares will be entitled to receive quarterly floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors, equal to the then current 3-month Government of Canada Treasury Bill yield plus 3.69 per cent. On December 1, 2025, and on December 1, of every fifth year thereafter, Canadian Utilities Limited may redeem the Series GG Preferred Shares in whole or in part at the stated value. On any other date, Canadian Utilities Limited may redeem the Series GG Preferred Shares in whole or in part by the payment of \$25.50 for each share to be redeemed.

### ISSUANCE COSTS

Issuance costs of \$7 million, net of income taxes, were recorded as a reduction of non-controlling interests in the nine months ended September 30, 2015, with respect to the Series EE and FF Preferred Shares.

## 12. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2015, Canadian Utilities Limited issued 707,582 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2014 – 561,316), using re-invested dividends of \$24 million (2014 – \$21 million). The Company participated in the DRIP by acquiring 368,884 Class A non-voting shares using re-invested dividends of \$12 million (2014 – 317,748 shares using re-invested dividends of \$12 million).

During the nine months ended September 30, 2015, Canadian Utilities Limited issued 2,013,598 Class A non-voting shares under its dividend reinvestment plan (DRIP) (2014 – 2,136,144), using re-invested dividends of \$74 million (2014 – \$82 million). The Company participated in the DRIP by acquiring 1,064,575 Class A non-voting shares using re-invested dividends of \$39 million (2014 – 1,363,096 shares using re-invested dividends of \$52 million).