ATCO

ATCO LTD.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the consolidated financial statements in accordance with International Financial Reporting Standards, which include amounts based on estimates and judgments. Management is also responsible for the preparation of the Management's Discuss and Analysis and other financial information contained in the Company's Annual Report, and ensures that it is consistent with the consolidated financial statements.

Management has established internal accounting and financial reporting control systems, which are subject to periodic review by the Company's internal auditors, to meet its responsibility for reliable and accurate reporting. Integral to these control systems are a code of ethics and management policies that provide guidance and direction to employees, as well as a system of corporate governance that provides oversight to the Company's operating, reporting and risk management activities.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the Audit & Risk Committee. The Audit & Risk Committee is comprised entirely of independent Directors. The Audit & Risk Committee meets regularly with management and the independent auditors to review significant accounting and financial reporting matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements.

PricewaterhouseCoopers LLP, our independent auditors, are engaged to perform an audit of the consolidated financial statements and expresses a professional opinion on the results. The Independent Auditor's Report to the Share Owners appears on the following page. PricewaterhouseCoopers LLP have full and independent access to the Audit & Risk Committee and management to discuss their audit and related matters.

[Original signed by N.C. Southern]	[Original signed by B.R. Bale]
Chair, President & Chief Executive Officer	Senior Vice President & Chief Financial Officer

March 2, 2017

Independent Auditor's Report

To the Share Owners of ATCO Ltd.

We have audited the accompanying consolidated financial statements of ATCO Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATCO Ltd. and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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Calgary, Alberta

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CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars except per share data)	Note	Year Ended December 31 2016	2015
Revenues	4	**4,045**	4,131
Costs and expenses			
Salaries, wages and benefits		**(581)**	(696)
Energy transmission and transportation		**(216)**	(189)
Plant and equipment maintenance		**(244)**	(298)
Fuel costs		**(130)**	(244)
Purchased power		**(81)**	(78)
Service concession arrangement costs	15	**(69)**	–
Materials and consumables		**(315)**	(510)
Depreciation, amortization and impairment	12,13	**(615)**	(756)
Franchise fees		**(205)**	(201)
Property and other taxes		**(101)**	(87)
Other	5	**(215)**	(281)
		(2,772)	(3,340)
Gain on sales of operations and revaluation of joint venture	6	**18**	49
Earnings from investment in joint ventures	29	**22**	3
Operating profit		**1,313**	843
Interest income		**16**	13
Interest expense	7	**(396)**	(302)
Net finance costs		**(380)**	(289)
Earnings before income taxes		**933**	554
Income taxes	8	**(258)**	(198)
Earnings for the year		**675**	356
Earnings attributable to:			
Class I and Class II Shares		**340**	154
Non-controlling interests		**335**	202
		675	356
Earnings per Class I and Class II Share	9	**$2.97**	$1.34
Diluted earnings per Class I and Class II Share	9	**$2.96**	$1.33

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Note	Year Ended December 31 2016	2015
Earnings for the year		**675**	356
Other comprehensive (loss) income, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits (1)	20	**(16)**	77
Share of re-measurement of retirement benefits of joint ventures (2)	29	–	(2)
		(16)	75
Items that are or may be reclassified subsequently to earnings:			
Cash flow hedges (3)		**6**	–
Cash flow hedges reclassified to earnings (4)		**1**	(2)
Foreign currency translation adjustment (4)		**(49)**	92
Share of other comprehensive income of joint ventures (4)	29	**1**	1
		(41)	91
Other comprehensive (loss) income		**(57)**	166
Comprehensive income for the year		**618**	522
Comprehensive income attributable to:			
Class I and Class II Shares		**305**	259
Non-controlling interests		**313**	263
		618	522

(1) Net of income taxes of $3 million for the year ended December 31, 2016 (2015 - $(43) million).

(2) Net of income taxes of nil for the year ended December 31, 2016 (2015 - $1 million).

(3) Net of income taxes of $(3) million for the year ended December 31, 2016 (2015 - nil).

(4) Net of income taxes of nil.

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	December 31 2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	23	**606**	800
Accounts receivable		**603**	624
Finance lease receivables	10	**12**	9
Inventories	11	**56**	87
Income taxes receivable	8	**49**	33
Prepaid expenses and other current assets		**58**	58
		1,384	1,611
Non-current assets			
Property, plant and equipment	12	**16,941**	16,230
Intangibles	13	**546**	502
Goodwill	14	**71**	71
Investment in joint ventures	29	**239**	194
Finance lease receivables	10	**302**	302
Deferred income tax assets	8	**67**	82
Receivable under service concession arrangement	15	**77**	–
Other assets		**97**	63
Total assets		**19,724**	19,055
LIABILITIES			
Current liabilities			
Bank indebtedness		**5**	1
Accounts payable and accrued liabilities		**694**	847
Asset retirement obligations and other provisions	17	**48**	79
Other current liabilities		**18**	17
Short-term debt	16	**55**	–
Long-term debt	18	**155**	5
Non-recourse long-term debt	19	**14**	15
		989	964
Non-current liabilities			
Deferred income tax liabilities	8	**1,199**	1,007
Asset retirement obligations and other provisions	17	**134**	154
Retirement benefit obligations	20	**332**	307
Deferred revenues	21	**1,689**	1,649
Other liabilities		**33**	46
Long-term debt	18	**8,065**	7,938
Non-recourse long-term debt	19	**84**	97
Total liabilities		**12,525**	12,162
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II Shares	22	**167**	165
Contributed surplus		**11**	11
Retained earnings		**3,345**	3,130
Accumulated other comprehensive income		**23**	50
		3,546	3,356
Non-controlling interests	30	**3,653**	3,537
Total equity		**7,199**	6,893
Total liabilities and equity		**19,724**	19,055

See accompanying Notes to Consolidated Financial Statements.

[Original Signed by N.C. Southern]
DIRECTOR

[Original Signed by R.J. Urwin]
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-Controlling Interests	Total Equity
		Attributable to Equity Owners of the Company						
December 31, 2014		161	11	3,010	(14)	3,168	3,112	6,280
Earnings for the year				154		154	202	356
Other comprehensive income		–	–	–	105	105	61	166
Gains on retirement benefits transferred to retained earnings	20	–	–	41	(41)	–	–	–
Equity preferred shares issued by subsidiary company, net of issue costs	30	–	–	–	–	–	368	368
Shares issued, purchased and cancelled	22,30	–	–	(10)	–	(10)	47	37
Dividends	22,30	–	–	(114)	–	(114)	(210)	(324)
Share-based compensation	31	4	–	3	–	7	1	8
Changes in ownership interest in subsidiary company (1)		–	–	46	–	46	(46)	–
Other		–	–	–	–	–	2	2
December 31, 2015		165	11	3,130	50	3,356	3,537	6,893
Earnings for the year		**–**	**–**	**340**	**–**	**340**	**335**	**675**
Other comprehensive loss		**–**	**–**	**–**	**(35)**	**(35)**	**(22)**	**(57)**
Losses on retirement benefits transferred to retained earnings	20	**–**	**–**	**(8)**	**8**	**–**	**–**	**–**
Shares issued, purchased and cancelled	22,30	**(1)**	**–**	**(17)**	**–**	**(18)**	**63**	**45**
Dividends	22,30	**–**	**–**	**(131)**	**–**	**(131)**	**(239)**	**(370)**
Share-based compensation	31	**3**	**–**	**–**	**–**	**3**	**5**	**8**
Changes in ownership interest in subsidiary company (1)		**–**	**–**	**31**	**–**	**31**	**(31)**	**–**
Other		**–**	**–**	**–**	**–**	**–**	**5**	**5**
December 31, 2016		**167**	**11**	**3,345**	**23**	**3,546**	**3,653**	**7,199**

(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 Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Year Ended December 31 2016	2015
Operating activities			
Earnings for the year		**675**	356
Adjustments to reconcile earnings to cash flows from operating activities	23	**1,237**	1,233
Changes in non-cash working capital	23	**(45)**	91
Change in receivable under service concession arrangement	15	**(77)**	–
Cash flows from operating activities		**1,790**	1,680
Investing activities			
Additions to property, plant and equipment		**(1,338)**	(1,637)
Proceeds on disposal of property, plant and equipment		**15**	1
Additions to intangibles		**(95)**	(134)
Acquisition of Thames Power Limited	6	**–**	(25)
Proceeds on sales of operations	6	**28**	57
Investment in joint ventures		**(85)**	(28)
Changes in non-cash working capital	23	**(137)**	(60)
Other		**1**	(27)
Cash flows used in investing activities		**(1,611)**	(1,853)
Financing activities			
Net issue of short-term debt	16	**55**	–
Issue of long-term debt		**450**	795
Repayment of long-term debt		**(144)**	(152)
Repayment of non-recourse long-term debt		**(15)**	(15)
Issue of equity preferred shares by subsidiary company	30	**–**	375
Issue of shares by subsidiary companies		**15**	4
Net purchase of Class I Shares		**(15)**	(7)
Dividends paid to Class I and Class II Share owners	22	**(131)**	(114)
Dividends paid to non-controlling interests	30	**(187)**	(163)
Interest paid		**(394)**	(370)
Other		**(1)**	(10)
Cash flows (used in) from financing activities		**(367)**	343
(Decrease) increase in cash position (1)		**(188)**	170
Foreign currency translation		**(10)**	39
Beginning of year		**799**	590
End of year	23	**601**	799

(1) Cash position includes $40 million which is not available for general use by the Company (2015 - $49 million).

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

(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 Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

ATCO Ltd. is engaged in the following business activities:

- Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management);
- Electricity (electricity generation, distributed generation, and electricity distribution, transmission and infrastructure development); and
- Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions).

The consolidated financial statements include the accounts of ATCO Ltd. and its subsidiaries (see Note 28). 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. In these financial statements, "the Company" means ATCO Ltd., its subsidiaries and joint arrangements.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated 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).

The Board of Directors (Board) authorized these consolidated financial statements for issue on March 2, 2017.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 35.

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

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Canadian dollars. Each entity within the Company determines its own functional currency based on the primary economic environment in which it operates.

USE OF ESTIMATES AND JUDGEMENTS

Management makes estimates and judgments that could significantly affect how policies are applied, amounts in the consolidated 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, assumptions and estimates are described in Note 27.

3. SEGMENTED INFORMATION

The Company's operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM is comprised of the Chair, President and Chief Executive Officer, and five other senior executives.

The accounting policies applied by the segments are the same as those applied by the Company, except for those used in the calculation of adjusted earnings. Intersegment transactions are measured at the exchange amount, as agreed to by the related parties.

Management has determined that the operating subsidiaries in the reportable segments below share similar economic characteristics, as such, they have been aggregated.

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

Structures & Logistics	The Structures & Logistics segment includes ATCO Structures & Logistics and ATCO Sustainable Communities. Together these companies offer workforce housing, modular facilities, site support services and logistics and operations management. The segment also included the Emissions Management business until it was sold on December 31, 2015 (see Note 6). Emissions Management provided noise and air emissions control and waste heat recovery systems for industrial facilities.
Electricity	The Electricity segment includes ATCO Electric, ATCO Power, Alberta PowerLine, and ATCO Power Australia. Together these businesses provide electricity generation, transmission, distribution and related infrastructure solutions in Western Alberta, Ontario, the Yukon, the Northwest Territories and Australia.
Pipelines & Liquids	The Pipelines & Liquids segment includes ATCO Gas, ATCO Pipelines, ATCO Gas Australia, ATCO Energy Solutions and ATCO Pipelines Mexico. These businesses provide integrated natural gas transmission, distribution and storage, industrial water solutions and related infrastructure development throughout Alberta, the Lloydminster area of Saskatchewan, Western Australia and Mexico.
Corporate & Other	The Corporate & Other segment includes commercial real estate owned by the Company in Alberta and ATCO Energy, a retail electricity and natural gas business in Alberta.

SEGMENTED RESULTS

Results by operating segment for the year ended December 31 is shown below.

2016 2015	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**646**	**1,852**	**1,474**	**73**	**–**	**4,045**
	867	1,758	1,487	19	–	4,131
Revenues - intersegment	**1**	**25**	**22**	**41**	**(89)**	**–**
	2	13	38	35	(88)	–
Revenues	**647**	**1,877**	**1,496**	**114**	**(89)**	**4,045**
	869	1,771	1,525	54	(88)	4,131
Operating expenses (1)	**(545)**	**(735)**	**(829)**	**(138)**	**90**	**(2,157)**
	(796)	(874)	(960)	(46)	92	(2,584)
Depreciation, amortization and impairment	**(40)**	**(357)**	**(220)**	**(11)**	**13**	**(615)**
	(113)	(343)	(297)	(7)	4	(756)
Gain on sales of operations and revaluation of joint venture	**–**	**–**	**18**	**–**	**–**	**18**
	19	25	5	–	–	49
Earnings from investment in joint ventures	**5**	**17**	**–**	**–**	**–**	**22**
	(9)	12	–	–	–	3
Net finance costs	**(1)**	**(249)**	**(142)**	**13**	**(1)**	**(380)**
	(2)	(158)	(137)	13	(5)	(289)
Earnings before income taxes	**66**	**553**	**323**	**(22)**	**13**	**933**
	(32)	433	136	14	3	554
Income taxes	**(17)**	**(151)**	**(100)**	**14**	**(4)**	**(258)**
	10	(153)	(58)	2	1	(198)
Earnings for the year	**49**	**402**	**223**	**(8)**	**9**	**675**
	(22)	280	78	16	4	356
Adjusted earnings	**43**	**213**	**136**	**(33)**	**1**	**360**
	27	171	101	(7)	1	293
Total assets	**790**	**11,506**	**6,919**	**600**	**(91)**	**19,724**
	929	11,060	6,394	697	(25)	19,055
Capital expenditures (2)	**70**	**572**	**734**	**75**	**–**	**1,451**
	61	935	824	48	–	1,868

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

(2) Includes additions to property, plant and equipment and intangibles and $18 million of interest capitalized during construction for the year ended December 31, 2016 (2015 - $97 million).

GEOGRAPHIC SEGMENTS

Financial information by geographic area is summarized below.

Revenues - external

	2016	2015
Canada	**3,598**	3,429
Australia	**364**	533
Other	**83**	169
Total	**4,045**	4,131

Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets [1]		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Canada	**15,405**	14,863	**531**	494	**247**	173	**16,183**	15,530
Australia	**1,278**	1,282	**15**	8	**35**	37	**1,328**	1,327
Other	**258**	85	**–**	–	**31**	44	**289**	129
Total	**16,941**	16,230	**546**	502	**313**	254	**17,800**	16,986

(1) Other assets exclude financial instruments, deferred income tax assets and goodwill.

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,
- 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 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 year ended December 31 is shown below.

2016 2015	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**43**	**213**	**136**	**(33)**	**1**	**360**
	27	171	101	(7)	1	293
Gain on sales of operations and revaluation of joint venture	**–**	**–**	**7**	**–**	**–**	**7**
	16	10	2	–	–	28
Restructuring costs	**–**	**–**	**–**	**–**	**–**	**–**
	(7)	(17)	(20)	(6)	–	(50)
Impairments	**–**	**–**	**(5)**	**–**	**–**	**(5)**
	(55)	(14)	(35)	–	–	(104)
Rate-regulated activities	**–**	**(4)**	**(22)**	**–**	**4**	**(22)**
	–	(5)	(9)	–	1	(13)
Earnings attributable to Class I and Class II Shares	**43**	**209**	**116**	**(33)**	**5**	**340**
	(19)	145	39	(13)	2	154
Earnings attributable to non-controlling interests						**335**
						202
Earnings for the year						**675**
						356

Gain on sales of operations and revaluation of joint venture

The Company adjusted for the following one-time gains and losses, after-tax and non-controlling interests (NCI), in 2016 and 2015:

	Note	Segment	2016	2015
Natural gas gathering and processing assets	6	Pipelines & Liquids	**7**	2
Emissions Management business	6	Structures & Logistics	**–**	16
Thames Power Limited	6	Electricity	**–**	10
			7	28

Restructuring costs

In 2015, the Company recorded restructuring costs of $50 million, after-tax and NCI, that were not in the normal course of business. These costs were primarily related to severance costs associated with staff reductions and lease termination costs.

Impairments

The Company adjusted for the following impairments, after-tax and NCI, in 2016 and 2015:

	Note	Segment	2016	2015
Natural gas pipeline and processing assets (1)	12	Pipelines & Liquids	**5**	35
Lodge and workforce housing assets	12,29	Structures & Logistics	**–**	55
Electricity generation assets	12	Electricity	**–**	14
			5	104

(1) In 2016, the Company adjusted the deferred tax asset which was recognized as a result of the Tula Pipeline Project impairment. The adjustment of $5 million is due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas, ATCO Pipelines and ATCO Gas Australia are collectively referred to in the consolidated financial statements as utilities.

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

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (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 segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a 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	Future removal and site restoration costs, finance costs on major transmission capital projects and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes, transmission access payments, transmission capital deferral, impact of warmer temperatures and impact of inflation on rate base for ATCO Gas Australia.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods. See regulatory decisions below.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

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

	2016	2015
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**32**	18
Finance costs on major transmission capital projects (2)	**–**	33
Revenues to be billed in future periods		
Deferred income taxes (3)	**(48)**	(86)
Impact of temperatures on revenues (4)	**(15)**	(11)
Impact of inflation on rate base (5)	**(5)**	(6)
Regulatory decisions received	**6**	45
Settlement of regulatory decisions and other items	**8**	(6)
	(22)	(13)

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

(2) Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred.

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

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

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

Regulatory decisions received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2016 and 2015 are provided below.

	Decision	Timing	Amount	Description
1.	ATCO Electric General Tariff Application (GTA)	October 2016	(10)	The GTA decision covers the operations of ATCO Electric Transmission for 2015, 2016 and 2017 and resulted in final rates that are lower than the approved interim rates from 2015, mainly due to lower approved operating costs.
2.	2016-2017 Generic Cost of Capital Decision (GCOC)	August 2016	1	The GCOC decision established the return on equity (ROE) and deemed common equity ratios for the Alberta utilities for 2016 and 2017. For ATCO Electric Distribution and ATCO Gas, the 2016 GCOC decision only applies to the K factor mechanism and does not apply to the base performance based regulation formula.
3.	ATCO Gas Australia Access Arrangement Decision	July 2016	3	An appeal application was lodged with the Australian Competition Tribunal as a result of the decision received from the Economic Regulation Authority (ERA). The appeal application decision resulted in an improvement in the recoverability of certain expenses.
		July 2015	(10)	The ERA released its final decision for ATCO Gas Australia's next Access Arrangement period from July 2014 to December 2019. The decision resulted in a reduced ROE.
4.	2013-2015 Generic Cost of Capital Decision (2013 GCOC)	March 2015	(27)	The 2013 GCOC decision established the ROE and deemed common equity ratios for the Alberta utilities for 2013 to 2015. The ROE was reduced from 8.75 per cent to 8.30 per cent and the deemed common equity ratios were reduced by one per cent from what was previously approved.
5.	Capital Tracker Decision	March 2015	(8)	Decisions for the 2013, 2014 and 2015 Capital Tracker applications included approval of incremental funding for substantially all of the Company's applied for Capital Tracker programs. However, the decisions resulted in lower Capital Tracker rates than previously approved 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.

4. REVENUES

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

	2016	2015
Sale of goods	**415**	611
Rendering of services	**3,232**	3,206
Operating lease income	**288**	283
Service concession arrangement income	**77**	–
Finance lease income	**33**	31
	4,045	4,131

5. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, utilities, realized and unrealized gains and losses on derivative financial instruments, goods and services such as professional fees, contractor costs, technology related expenses, advertising, and other general and administrative expenses.

6. SALES OF OPERATIONS AND REVALUATION OF JOINT VENTURE

SALE OF NATURAL GAS GATHERING AND PROCESSING ASSETS

On January 1, 2016, the Company sold its 51.3 per cent ownership interest in the Edmonton Ethane Extraction Plant for cash proceeds of $21 million, resulting in a gain of $18 million ($7 million after-tax and NCI). Commencing January 1, 2016, the Company no longer recognizes these assets in its financial position, results of operations and cash flows in the consolidated financial statements. These assets were previously reported in the Pipelines & Liquids segment.

On December 31, 2015, the Company sold certain non-core natural gas gathering and processing assets for cash proceeds of $7 million, resulting in a gain of $5 million ($2 million after-tax and NCI). Commencing December 31, 2015, the Company no longer recognizes these assets in its financial position, results of operations and cash flows in the consolidated financial statements. These assets were previously reported in the Pipelines & Liquids segment.

REVALUATION OF EXISTING INTEREST IN JOINT VENTURE

On November 2, 2015, the Company increased its ownership in Thames Power Limited (TPL) from 50 per cent to 100 per cent. TPL owns a 51 per cent joint interest in Barking Power Limited (Barking), an entity that holds land assets in the U.K. Cash consideration for the purchase was $25 million. The transaction was accounted for as an asset acquisition and resulted in a revaluation gain of $25 million ($10 million after-tax and NCI) on the Company's existing ownership interest in TPL, and its related entities. This transaction was performed to strategically position the Company for future opportunities in the U.K. market.

TPL also has a 100 per cent ownership interest in Thames Power Services Limited, which has a defined benefit plan for employees. In 2015, trustees for the pension plan entered into a policy with Pension Insurance Corporation (PIC) and transferred the majority of plan assets to PIC in order to secure the benefits of the defined benefit plan. The pension plan assets and liabilities were included in the Company's retirement benefit obligations at December 31, 2015 (see Note 20). Individual policies were issued to members in September 2016, discharging TPL's legal obligation for benefits under the defined benefit plan. The pension plan assets and liabilities have been removed from the Company's retirement benefit obligations at December 31, 2016.

SALE OF ATCO EMISSIONS MANAGEMENT

On December 31, 2015, the Company completed the sale of its Emissions Management business. Included in the sale was all of Emissions Management's global operations in Canada, United States and Mexico and the transfer of current contracts and employees. Proceeds on the sale were $60 million, of which $10 million was related to a working capital true-up adjustment. In 2016, $7 million of the working capital was collected, the remaining $3 million is receivable in 2017. A one-time gain of $19 million was recognized as a result of this transaction ($16 million after-tax and NCI). Commencing December 31, 2015, the Company no longer recognizes ATCO Emissions Management in its financial position, results of operations and cash flows in the consolidated financial statements. ATCO Emissions Management was previously reported in the Structures & Logistics segment.

7. INTEREST EXPENSE

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

	2016	2015
Long-term debt	**385**	365
Non-recourse long-term debt	**8**	11
Retirement benefits net interest expense	**6**	11
Amortization of deferred financing charges	**3**	3
Accretion of asset retirement obligations	**4**	3
Other	**8**	6
	414	399
Less: interest capitalized *(Note 12)*	**(18)**	(97)
	396	302

Borrowing costs capitalized to property, plant and equipment during 2016 were calculated by applying interest rates ranging from 2.90 per cent to 5.30 per cent to expenditures on qualifying assets (2015 - 2.76 per cent to 5.50 per cent).

8. INCOME TAXES

INCOME TAX EXPENSE

The components of income tax expense are summarized below.

	2016	2015
Current income tax expense		
Canada	**57**	26
Australia	**15**	30
United States	**2**	1
Other	**–**	1
Adjustment in respect of prior years	**(12)**	(4)
	62	54
Deferred income tax expense		
Reversal of temporary differences	**187**	71
Amount relating to change in tax rates	**–**	70
Adjustment in respect of prior years	**9**	3
	196	144
	258	198

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

	2016		2015	
Earnings before income taxes	**933**	**%**	554	%
Income taxes, at statutory rates	**252**	**27.0**	144	26.0
Change in deferred income taxes resulting from increase in provincial corporate tax rate	**–**	**–**	70	12.6
International financing	**(9)**	**(1.0)**	(10)	(1.8)
Foreign tax rate variance	**4**	**0.4**	2	0.4
Foreign exchange on deferred tax asset	**9**	**1.0**	–	–
Equity earnings	**(8)**	**(0.8)**	(1)	(0.2)
Unrecognized deferred income tax assets	**6**	**0.6**	3	0.5
Disposition of investment at capital gains rate	**–**	**–**	(4)	(0.7)
Tax cost of preferred share financings	**2**	**0.2**	3	0.5
Other	**2**	**0.2**	(9)	(1.6)
	258	**27.6**	198	35.7

INCOME TAX ASSETS AND LIABILITIES

Income tax assets and liabilities in the consolidated balance sheet at December 31 are summarized below.

	Balance Sheet Presentation	2016	2015
Income tax assets			
Current	Income taxes receivable	**49**	33
Deferred	Deferred income tax assets	**67**	82
		116	115
Income tax liabilities			
Current	Other current liabilities	**16**	12
Deferred	Deferred income tax liabilities	**1,199**	1,007
		1,215	1,019

DEFERRED INCOME TAXES

The changes in deferred income tax assets are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2014	(9)	–	35	1	1	2	30
Credit (charge) to earnings	47	–	–	2	2	(1)	50
Charge to other comprehensive income	–	–	–	–	(1)	–	(1)
Other	2	–	1	(1)	–	1	3
December 31, 2015	40	–	36	2	2	2	82
(Charge) credit to earnings	**(6)**	**(3)**	**(10)**	**7**	**–**	**–**	**(12)**
Charge to other comprehensive income	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Other	**(1)**	**–**	**–**	**1**	**–**	**(2)**	**(2)**
December 31, 2016	**33**	**(3)**	**26**	**10**	**1**	**–**	**67**

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

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2014	910	85	(32)	(34)	(149)	(2)	778
Charge (credit) to earnings	214	17	(10)	(58)	2	29	194
Charge to other comprehensive income	–	–	–	–	42	–	42
Acquisition of TPL *(Note 6)*	–	–	–	–	(9)	–	(9)
Other	(1)	–	(1)	1	–	3	2
December 31, 2015	1,123	102	(43)	(91)	(114)	30	1,007
Charge (credit) to earnings	**127**	**15**	**37**	**15**	**(1)**	**(9)**	**184**
Charge (credit) to other comprehensive income	–	–	**3**	–	**(4)**	–	**(1)**
Consolidation of Barking *(Note 29)*	**11**	–	–	–	–	–	**11**
Other	**(2)**	–	–	–	**2**	**(2)**	**(2)**
December 31, 2016	**1,259**	**117**	**(3)**	**(76)**	**(117)**	**19**	**1,199**

The Company expects approximately $7 million of its deferred income tax liabilities to reverse within the next twelve months.

At the end of 2016, the Company had $326 million of non-capital tax losses and credits which expire between 2029 and 2036 and $20 million of tax losses which do not expire. The Company recognized deferred income tax assets of $86 million for losses and credits that expire. No deferred income tax assets were recorded for losses that do not expire.

The Company recognized deferred income tax assets of nil directly to equity (2015 - $2 million).

The Company had $114 million of aggregate temporary differences for investments in subsidiaries, branches and joint ventures for which deferred income tax liabilities were not recognized (2015 - $124 million).

9. EARNINGS PER SHARE

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

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

	2016	2015
Average shares		
Weighted average shares outstanding	**114,410,703**	114,831,792
Effect of dilutive stock options	**132,814**	154,752
Effect of dilutive MTIP	**302,359**	313,302
Weighted average dilutive shares outstanding	**114,845,876**	115,299,846
Earnings for earnings per share calculation		
Earnings for the year	**675**	356
Non-controlling interests	**(335)**	(202)
	340	154
Earnings and diluted earnings per Class I and Class II Share		
Earnings per Class I and Class II Share	**$2.97**	$1.34
Diluted earnings per Class I and Class II Share	**$2.96**	$1.33

10. LEASES

THE COMPANY AS LESSOR

The Company is party to certain arrangements that convey the right to use electricity generation and non-regulated electricity transmission assets. These arrangements are classified as finance leases, with the Company as the lessor. Certain assets under power purchase agreements (PPA) are classified as operating leases as the Company (as lessor) still retains substantially all the risks and rewards of ownership. Operating leases also include rentals of modular structures.

Finance leases

The total net investment in finance leases is shown below. Finance lease income is recognized in revenues.

	2016	2015
Net investment in finance leases		
Finance lease - gross investment	**622**	635
Unearned finance income	**(310)**	(326)
Unguaranteed residual value	**2**	2
	314	311
Current portion	**12**	9
Non-current portion	**302**	302
	314	311
Gross receivables from finance leases		
In one year or less	**45**	42
In more than one year, but not more than five years	**197**	191
In more than five years	**380**	402
	622	635
Net investment in finance leases		
In one year or less	**12**	9
In more than one year, but not more than five years	**65**	55
In more than five years	**237**	247
	314	311

During the year ended December 31, 2016, $3 million of contingent rent was recognized as income from these finance leases (2015 - $4 million).

Operating leases

The aggregate future minimum lease payments receivable under non-cancellable operating leases are:

	2016	2015
Minimum lease payments receivable		
In one year or less	**189**	202
In more than one year, but not more than five years	**671**	698
In more than five years	**3**	96
	863	996

During the year ended December 31, 2016, $16 million of contingent rent was recognized as income from these operating leases (2015 - $30 million).

THE COMPANY AS LESSEE

Operating leases

The Company has entered into long-term operating leases for office premises and equipment. During the year ended December 31, 2016, $35 million was recognized as an expense for these operating leases (2015 - $49 million).

11. INVENTORIES

Inventories at December 31 are comprised of:

	2016	2015
Natural gas and fuel in storage	**17**	20
Raw materials and consumables	**25**	40
Work-in-progress	**5**	14
Finished goods	**9**	13
	56	87

For the year ended December 31, 2016, inventories recognized as an expense were $320 million (2015 - $445 million).

Inventories with a carrying value of $7 million were pledged as security for liabilities at December 31, 2016 (2015 - $17 million).

12. PROPERTY, PLANT AND EQUIPMENT

The Company continues to invest 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
Cost						
December 31, 2014	13,529	1,980	756	2,390	1,658	20,313
Additions	348	66	25	1,303	55	1,797
Transfers	2,718	38	37	(2,894)	101	–
Retirements and disposals	(73)	(54)	(18)	(14)	(131)	(290)
Changes to asset retirement costs	8	4	–	–	(42)	(30)
Foreign exchange rate adjustment	71	–	2	9	24	106
December 31, 2015	16,601	2,034	802	794	1,665	21,896
Additions	**422**	**26**	**119**	**859**	**68**	**1,494**
Transfers	**701**	**10**	**24**	**(823)**	**88**	–
Retirements and disposals	**(153)**	**(15)**	**(5)**	**(45)**	**(148)**	**(366)**
Changes to asset retirement costs	–	**(3)**	–	–	**(5)**	**(8)**
Foreign exchange rate adjustment	**(46)**	**(1)**	**(20)**	**(4)**	**(7)**	**(78)**
December 31, 2016	**17,525**	**2,051**	**920**	**781**	**1,661**	**22,938**
Accumulated depreciation and impairment						
December 31, 2014	3,136	1,208	169	–	683	5,196
Depreciation and impairment	357	106	14	85	164	726
Retirements and disposals	(73)	(53)	(16)	–	(116)	(258)
Changes to asset retirement costs	–	–	–	–	(12)	(12)
Foreign exchange adjustment	7	–	1	–	6	14
December 31, 2015	3,427	1,261	168	85	725	5,666
Depreciation	**408**	**65**	**19**	–	**81**	**573**
Retirements and disposals	**(101)**	**(14)**	**(5)**	–	**(106)**	**(226)**
Foreign exchange adjustment	**(5)**	–	**(2)**	**(3)**	**(6)**	**(16)**
December 31, 2016	**3,729**	**1,312**	**180**	**82**	**694**	**5,997**
Net book value						
December 31, 2015	13,174	773	634	709	940	16,230
December 31, 2016	**13,796**	**739**	**740**	**699**	**967**	**16,941**

The additions to property, plant and equipment included $18 million of interest capitalized during construction for the year ended December 31, 2016 (2015 - $97 million).

As part of the integration of natural gas transmission service in Alberta, ATCO Pipelines and NOVA Gas Transmission Ltd. exchanged ownership of certain natural gas pipelines and related facilities during 2016. The net book value of assets disposed of was $51 million compared to assets acquired of $65 million, resulting in an increase in the net book value of utility, transmission and distribution assets of $14 million. The net assets acquired were settled in cash.

Property, plant and equipment with a carrying value of $692 million were pledged as security for liabilities at December 31, 2016 (2015 - $739 million).

IMPAIRMENTS

Structures & Logistics Segment

Lodge assets

In June 2015, the Company recognized a pre-tax impairment of $9 million relating to certain lodge assets. The impairment was included in depreciation, amortization and impairment expense. 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. This amount was determined using value in use.

Workforce housing assets

In December 2015, the Company recognized a pre-tax impairment of $57 million relating to its workforce housing fleet in Canada and Australia. The impairment was included in depreciation, amortization and impairment expense. The Company determined these assets were impaired due to a reduction in utilization and rates as a result of sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key clients. The Canadian and Australian expected future cash flows were discounted at pre-tax rates of 17 per cent and 12 per cent, respectively. After recognizing this impairment, the recoverable amount of these assets was $94 million at December 31, 2015. This amount was determined using value in use. If the utilization rate had decreased by 10 per cent, the impairment would have increased by $14 million.

Electricity Segment

Electricity generation assets

In December 2015, the Company recognized a pre-tax impairment of $35 million relating to the Battle River units 3 and 4 electricity generation assets. The impairment was included in depreciation, amortization and impairment expense. The Company determined that the net book value of these assets were not recoverable due to new environmental regulations which impacted emissions costs and ongoing soft market conditions in the Alberta power market. Management made assumptions about operating costs, forward Alberta power pool prices to forecast expected future cash flows. The cash flows were discounted at a pre-tax rate of 12 per cent. After recognizing this impairment, the recoverable amount of these assets was nil at December 31, 2015. This amount was determined using value in use.

Pipelines & Liquids Segment

Natural gas pipeline and processing assets

In December 2015, the Company recognized a pre-tax impairment of $85 million relating to its Tula Pipeline Project in Mexico. The impairment was included in depreciation, amortization and impairment expense. The Company determined these construction work in progress assets were impaired as a result of significantly higher land access costs than originally forecast. The expected future cash flows were discounted at an after-tax rate of 9 per cent. After recognizing this impairment, the recoverable amount of these assets was $63 million at December 31, 2015. This amount was determined using a fair value less cost to sell model. If the discount rate had increased by 1 per cent, the impairment would have increased by $10 million.

In December 2015, the Company recognized a pre-tax impairment of $9 million relating to certain natural gas processing facilities. The impairment was included in depreciation, amortization and impairment expense. The Company determined that the carrying value of these assets exceeded the recoverable amounts due to a significant and prolonged decline in commodity prices which reduced future cash flow forecasts. Management made assumptions about gas volumes, the price of natural gas, and operational capacity based on industry information and Company forecasts of expected future cash flows. The cash flows were discounted at a pre-tax rate of 10 per cent. After recognizing this impairment, the recoverable amount of these assets was $9 million at December 31, 2015. This amount was determined using value in use.

13. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. Goodwill is also an intangible asset (see Note 14). A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Other	Total
Cost				
December 31, 2014	483	229	27	739
Additions	56	73	7	136
Disposals	(10)	–	(2)	(12)
Foreign exchange rate adjustment	–	–	1	1
December 31, 2015	529	302	33	864
Additions	**79**	**24**	**–**	**103**
Disposals	**–**	**(2)**	**(6)**	**(8)**
December 31, 2016	**608**	**324**	**27**	**959**
Accumulated amortization				
December 31, 2014	279	32	12	323
Amortization	44	3	1	48
Disposals	(8)	–	(2)	(10)
Foreign exchange rate adjustment	–	–	1	1
December 31, 2015	315	35	12	362
Amortization	**52**	**4**	**1**	**57**
Disposals	**–**	**–**	**(6)**	**(6)**
December 31, 2016	**367**	**39**	**7**	**413**
Net book value				
December 31, 2015	214	267	21	502
December 31, 2016	**241**	**285**	**20**	**546**

14. GOODWILL

The carrying value of goodwill for the Electricity and Pipelines & Liquids segments is shown below.

	2016	2015
Electricity	**38**	38
Pipelines & Liquids	**33**	33
Carrying value	**71**	71

The recoverable amount was measured based on each segment's fair value less costs of disposal, which was calculated using publicly available enterprise values and price-to-earnings multiples of comparable, actively traded companies. Each segment's fair value less costs of disposal was compared to its carrying value and was sufficient to support the carrying value of allocated goodwill.

The Company used an average enterprise value-to-earnings before interest, taxes, depreciation, and amortization of 9.1 and 17.1 (2015 - 10.2 and 13.2) and price-to-earnings value of 16.8 and 24.3 (2015 - 16.3 and 18.7) for the Electricity and Pipelines & Liquids segments, respectively, to calculate fair value less costs of disposal.

The fair value measurements are categorized in Level 3 of the fair value hierarchy.

15. RECEIVABLE UNDER SERVICE CONCESSION ARRANGEMENT

In December 2014, Alberta PowerLine (APL), a partnership between Canadian Utilities Limited and Quanta Capital Solutions, Inc., was awarded a 35-year contract by the Alberta Electric System Operator (AESO) to design, build, own, and operate the Fort McMurray 500 kV Transmission project.

The project has been accounted for as a service concession arrangement as the AESO controls the output of the transmission facilities as a part of the greater Alberta network and the ownership of the transmission facilities will transfer to the AESO at the end of the service agreement. Under a service concession arrangement, the Company does not recognize the transmission facilities as property, plant and equipment, instead, a financial asset representing amounts due from the AESO has been recognized as a long-term receivable in the consolidated balance sheet. Revenues and costs relating to the design, planning and construction phases of the project are recognized based on percentage of completion and revenues and costs relating to the operating phase will be recognized as the service is rendered.

Design and route planning activities are in progress. Construction is expected to commence in 2017 and the project is anticipated to be in service in 2019. The receivable due from the AESO was $77 million at December 31, 2016 (2015 - nil). Payments will commence once the asset is in service. Contracted undiscounted cash flows from the project are expected to be $3.7 billion.

Revenues and operating profit for the year ended December 31, 2016, are $77 million and $8 million, respectively (2015 - nil).

16. SHORT-TERM DEBT

At December 31, 2016, the Company had $55 million of commercial paper outstanding at an interest rate of 0.89 per cent, maturing in January 2017 (2015 - nil). The commercial paper is supported by the Company's long-term committed credit facilities (Note 25).

17. ASSET RETIREMENT OBLIGATIONS AND OTHER PROVISIONS

Asset retirement obligations (AROs) represent the present value of the costs to be incurred to retire the Company's power generation plants and natural gas liquids extraction and processing plants. The other provision relates mainly to restructuring costs and expected warranty claims on modular buildings.

The changes in AROs and other provisions are as follows:

	Asset Retirement Obligations	Other	Total
December 31, 2014	198	20	218
Additions	9	64	73
Utilized in the year	(6)	(11)	(17)
Reversals of unused amounts	(16)	(3)	(19)
Accretion expense	3	–	3
Revisions in discount rate	(26)	–	(26)
Foreign exchange rate adjustment	–	1	1
December 31, 2015	162	71	233
Additions	**21**	**5**	**26**
Utilized in the year	**(1)**	**(45)**	**(46)**
Reversals of unused amounts	**(12)**	**(12)**	**(24)**
Accretion expense	**4**	**–**	**4**
Revisions in discount rate	**(9)**	**–**	**(9)**
Foreign exchange rate adjustment	**(2)**	**–**	**(2)**
December 31, 2016	**163**	**19**	**182**
Less: current portion	**31**	**17**	**48**
Long-term portion	**132**	**2**	**134**

ASSET RETIREMENT OBLIGATIONS

The Company estimates that the undiscounted amount of cash flows required to settle the AROs is approximately $5.1 billion, which will be incurred between 2017 and 2261. The weighted average pre-tax, risk-free discount rate used to calculate the fair value of the AROs at December 31, 2016 was 2.71 per cent (2015 - 2.90 per cent).

OTHER PROVISIONS

In order to maintain the Company's competitive position, a restructuring and transformation process was implemented in 2015. The Company provided for staff and other costs directly attributable to restructuring, including lease termination costs, at December 31, 2015.

The Company has provided for warranty claims based on current sales levels and information available on repair and maintenance costs for products sold. The Company expects that the majority of the warranty claims costs will be incurred in the next year.

18. LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	Effective Interest Rate	2016	2015
CU Inc. debentures - unsecured	4.982% (2015 - 5.046%)	**7,325**	6,950
(Interest is the average effective interest rate weighted by principal amounts outstanding)			
CU Inc. other long-term obligation, due June 2018 - unsecured	2.700%	**3**	3
Canadian Utilities Limited debentures - unsecured 2012 3.122% due November 2022	3.187%	**200**	200
ATCO Power Australia credit facility, payable in Australian dollars, at BBSY Rates, due February 2020, secured by a pledge of project assets and contracts, $79 million AUD (2015 - $84 million AUD) (1)	Floating (2)	**77**	85
ATCO Gas Australia Limited Partnership credit facility, payable in Australian dollars, at BBSY Rates, due December 2019, $250 million AUD (2015 - $250 million AUD) (1)	Floating (2)	**243**	252
ATCO Gas Australia Limited Partnership revolving credit facility, payable in Australian dollars, at BBSY Rates, due December 2019, $427 million AUD (2015 - $427 million AUD) (1)	Floating (2)	**414**	430
ATCO Structures & Logistics credit facility, at BA Rates, due September 2018 secured by a general assignment of ATCO Structures & Logistics' present and future property, assets, undertakings and equity interests in certain of its restricted subsidiaries and joint ventures (1)	Floating	**–**	64
Less: deferred financing charges		**(42)**	(41)
		8,220	7,943
Less: amounts due within one year		**(155)**	(5)
		8,065	7,938

BBSY - Bank Bill Swap Benchmark Rate

BA - Bankers' Acceptance

(1) *The above interest rates have additional margin fees at a weighted average rate of 1.14 per cent (2015 - 1.20 per cent). The margin fees are subject to escalation.*

(2) *Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 24).*

DEBENTURE ISSUANCES

During 2016, CU Inc. issued $375 million of 3.763 per cent debentures maturing on November 19, 2046 (2015 - $400 million of 3.964 per cent debentures maturing on July 27, 2045, and $250 million of 4.211 per cent debentures maturing on October 29, 2055).

PLEDGED ASSETS

The ATCO Power Australia credit facility is guaranteed by Canadian Utilities Limited and is secured by a mortgage on certain assets of the Karratha Power Plant and an assignment of certain contracts and agreements. The Karratha Power Plant is accounted for as a finance lease receivable.

The book value of assets pledged to maintain the Company's long-term credit facilities was $566 million at December 31, 2016 (2015 - $726 million).

19. NON-RECOURSE LONG-TERM DEBT

Non-recourse long-term debt outstanding at December 31 is as follows:

Project Financing	Effective Interest Rate	2016	2015
Joffre notes, at fixed rate of 8.590%, due to 2020	8.950%	**18**	24
Scotford notes, at fixed rate of 7.930%, due to 2022	8.240%	**17**	19
Muskeg River notes, at fixed rate of 7.560%, due to 2022	7.840%	**14**	16
Cory:			
Notes, at fixed rate of 7.586%, due to 2025	7.870%	**26**	28
Notes, at fixed rate of 7.601%, due to 2026	7.890%	**24**	26
Other long-term obligation, at a fixed rate of 8.160%, due to 2016		**–**	1
Less: deferred financing charges		**(1)**	(2)
		98	112
Less: amounts due within one year		**(14)**	(15)
		84	97

PLEDGED ASSETS

The non-recourse long-term debt is secured by charges on the projects' assets and by an assignment of the projects' bank accounts, outstanding contracts and agreements. The book value of the pledged assets at December 31, 2016, was $381 million (2015 - $403 million). The Cory project is accounted for as a finance lease receivable.

20. RETIREMENT BENEFITS

The Company maintains registered defined benefit and defined contribution pension plans for most of its employees. It also provides other post-employment benefits (OPEB), 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 of Canadian Utilities Limited and its subsidiaries, and, as of 2005, new employees of ATCO Structures & Logistics, automatically participate in the defined contribution pension plans.

The Company also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

The majority of benefit payments are made from trustee-administered funds; however, there are a number of unfunded plans where the Company makes the benefit payments. Plan assets held in trusts are governed by provincial and federal legislation and regulations, as is the relationship between the Company and the trustee. The Pension Committee of the Board is responsible for governance of the funded plans and policy decisions related to benefit design, liability management, and funding and investment, including selection of investment managers and investment options for the plans.

BENEFIT PLAN ASSETS, OBLIGATIONS AND FUNDED STATUS

The changes in Company's pension and OPEB plan assets and obligations are as follows:

	2016		2015	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Market value of plan assets				
Beginning of year	2,728	–	2,528	–
Interest income	**106**	–	98	–
Employee contributions	**1**	–	2	–
Employer contributions	**30**	–	44	–
Benefit payments	**(125)**	–	(97)	–
TPL *(Note 6)*	**(69)**	–	69	–
Return on plan assets, excluding amounts included in interest income	**12**	–	87	–
Foreign exchange rate adjustment	**(9)**	–	1	–
Other	–	–	(4)	–
End of year	**2,674**	–	2,728	–
Accrued benefit obligations				
Beginning of year	2,918	117	2,851	122
Current service cost	**33**	**2**	39	2
Interest cost	**114**	**4**	113	5
Employee contributions	**1**	–	2	–
Benefit payments from plan assets	**(125)**	–	(97)	–
Benefit payments by employer	**(7)**	**(4)**	(8)	(3)
Curtailment gain (1)	–	–	(23)	(1)
TPL *(Note 6)*	**(69)**	–	69	–
Actuarial losses (gains)	**33**	**(2)**	(29)	(8)
Foreign exchange rate adjustment	**(9)**	–	1	–
End of year (2)	**2,889**	**117**	2,918	117
Funded status				
Net retirement benefit obligations	**215**	**117**	190	117

(1) In 2015, the Company recorded a curtailment gain of $24 million related to significant employee reductions. The gain is reported in salaries, wages and benefits expenses.

(2) The non-registered, non-funded defined benefit pension plans accrued benefit obligations decreased to $145 million at December 31, 2016 due to experience adjustments partially offset by a decrease in the liability discount rate (2015 - increased to $149 million due to experience adjustments partially offset by an increase in the liability discount rate).

BENEFIT PLAN COST

The components of benefit plan cost are as follows:

	2016		2015	
	Pension Benefit Plans	**OPEB Plans**	**Pension Benefit Plans**	**OPEB Plans**
Current service cost	**33**	**2**	39	2
Interest cost	**114**	**4**	113	5
Interest income	**(106)**	**–**	(98)	–
Curtailment gain	**–**	**–**	(23)	(1)
Defined benefit plans cost	**41**	**6**	31	6
Defined contribution plans cost	**33**	**–**	38	–
Total cost	**74**	**6**	69	6
Less: capitalized	**29**	**3**	37	3
Net cost recognized	**45**	**3**	32	3

RE-MEASUREMENT OF RETIREMENT BENEFITS

Re-measurements of the pension and OPEB plans are as follows:

	2016		2015	
	Pension Benefit Plans	**OPEB Plans**	**Pension Benefit Plans**	**OPEB Plans**
Gains (losses) on plan assets from:				
Return on plan assets, excluding amounts included in net interest expense	**12**	**–**	87	–
Other	**–**	**–**	(4)	–
	12	**–**	83	–
(Losses) gains on plan obligations from:				
Changes in demographic assumptions	**–**	**5**	–	5
Changes in financial assumptions	**(54)**	**(3)**	39	2
Experience adjustments	**21**	**–**	(10)	1
	(33)	**2**	29	8
(Losses) gains recognized in other comprehensive income [(1)]	**(21)**	**2**	112	8

(1) (Losses) gains net of income taxes were $(16) million for the year ended December 31, 2016 (2015 - $77 million).

PLAN ASSETS

The market values of the Company's defined benefit pension plan assets at December 31 are as follows:

				2016				2015
Plan asset mix	**Quoted**	**Un-quoted**	**Total**	**%**	**Quoted**	**Un-quoted**	**Total**	**%**
Equity securities								
Public								
Canada	**243**	–	**243**		252	–	252	
United States	**352**	–	**352**		366	–	366	
International	**137**	–	**137**		201	–	201	
Private	–	**13**	**13**		–	20	20	
	732	**13**	**745**	**28**	819	20	839	30
Fixed income securities								
Government bonds	**862**	–	**862**		793	–	793	
Corporate bonds and debentures	**632**	–	**632**		569	–	569	
Securitizations	**51**	–	**51**		53	–	53	
Mortgages	–	**54**	**54**		–	46	46	
	1,545	**54**	**1,599**	**60**	1,415	46	1,461	54
Real estate								
Land and building [(1)]	–	**60**	**60**		–	70	70	
Real estate funds	–	**187**	**187**		–	180	180	
	–	**247**	**247**	**9**	–	250	250	9
Cash and other assets								
Cash	**35**	–	**35**		68	–	68	
Short-term notes and money market funds	**39**	–	**39**		26	–	26	
Qualifying insurance policy	–	–	–		–	76	76	
Accrued interest and dividends receivable	**9**	–	**9**		8	–	8	
	83	–	**83**	**3**	102	76	178	7
	2,360	**314**	**2,674**	**100**	2,336	392	2,728	100

(1) The land and building are occupied by the Company.

At December 31, 2016, plan assets include Class A non-voting shares of Canadian Utilities Limited having a market value of $8 million (2015 - Class A non-voting and Class B common shares having a market value of $32 million) and Class I Shares of the Company having a market value of $10 million (2015 - $37 million).

FUNDING

In 2016, an actuarial valuation for funding purposes as of December 31, 2015 was completed for the registered defined benefit pension plans. The estimated contribution for 2017 is $27 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2018.

WEIGHTED AVERAGE ASSUMPTIONS

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

	2016		2015	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**4.10%**	**4.10%**	4.00%	4.00%
Average compensation increase for the year (1)	**1.50%**	**n/a**	3.25%	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.90%**	**3.90%**	4.10%	4.10%
Long-term inflation rate	**2.00%**	**n/a**	2.00%	n/a
Health care cost trend rate:				
Drug costs (2)	**n/a**	**5.57%**	n/a	5.70%
Other medical costs	**n/a**	**4.50%**	n/a	4.50%
Dental costs	**n/a**	**4.00%**	n/a	4.00%

(1) The assumed average compensation increase is 1.50 per cent for 2016 to 2018 and 2.50 per cent thereafter.

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

The weighted average duration of the defined benefit obligation is 13.7 years.

RISKS

The Company is exposed to a number of risks related to its defined benefit pension plans and OPEB plans. The most significant risks are described below.

Investment risk

The Company makes investment decisions for its funded plans using an asset-liability matching framework. Within this framework, the Company's objective over time is to increase the proportion of plan assets in fixed income securities with maturities that match the expected benefit payments as they fall due. However, due to the long-term nature of the benefit obligations, the strength of the Company, and the belief that equities offer the best returns over the long-term with an acceptable level of risk, the Company continues to invest in equity securities. This investment is an important element of the Company's long-term strategy to manage the plans efficiently. The equity securities are in a diversified portfolio of high-quality businesses. The Company has not changed the processes used to manage its risks from previous periods.

Interest rate risk

A decrease in long-term interest rates will increase accrued benefit obligations, which will be partially offset by an increase in the value of the plans' bond holdings. Other things remaining the same, a further decrease in long-term interest rates will cause the funded status to deteriorate, while increases in interest rates will result in gains.

Compensation risk

The present value of the accrued benefit obligations is calculated using the estimated future compensation of plan participants. Should future compensation be higher than estimated, benefit obligations will increase.

Inflation risk

Accrued benefit obligations are linked to inflation, and higher inflation will lead to increased obligations. For the defined benefit pension plans, inflation risk is mitigated because the indexing of benefit payments is capped at an annual increase of 3.0 per cent.

The majority of plan assets are also affected by inflation. As inflation rises, long-term interest rates will likely rise, pushing up bond yields and reducing the value of existing fixed rate bonds. The relationship between equities and inflation is not as clear, but generally speaking, high inflation has a negative impact on equity valuations. Overall, rising inflation will likely reduce a plan surplus or increase a deficit.

Life expectancy

Should pensioners live longer than assumed, benefit obligations and liabilities will be larger than expected.

SENSITIVITIES

The 2016 sensitivities of key assumptions used in measuring the Company's pension and OPEB plans are as follows:

		Accrued Benefit Obligation		Net Benefit Plan Cost	
Assumption	**Percent Change**	**Increase in Assumption**	**Decrease in Assumption**	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	1%	(356)	456	(10)	14
Future compensation rate	1%	25	(24)	1	(1)
Long-term inflation rate (1)	1%	404	(334)	12	(9)
Health care cost trend rate	1%	11	(9)	–	–
Life expectancy	10%	75	(67)	2	(2)

(1) The long-term inflation rate for pension plans reflects the fact that pension plan benefit payments have historically been indexed annually to increases in the Canadian Consumer Price Index to a maximum increase of 3.0 per cent per annum.

The above sensitivities have been calculated independently of each other. Actual experience may result in changes in a number of assumptions simultaneously.

21. DEFERRED REVENUES

Deferred revenues from customer contributions and other sources are as follows:

	2016	2015
Customer contributions	**1,687**	1,647
Other	**2**	2
	1,689	1,649

CUSTOMER CONTRIBUTIONS

Customer contributions for extensions to plant are included in deferred revenues and recognized as revenue over the life of the related asset. Changes in deferred customer contribution revenues are summarized below.

	2016	2015
Beginning of year	1,647	1,508
Receipt of customer contributions	**104**	197
Amortization	**(64)**	(59)
Foreign exchange rate adjustment	–	1
End of year	**1,687**	1,647

22. CLASS I AND CLASS II SHARES

A reconciliation of the number and dollar amount of outstanding Class I and Class II Shares at December 31, 2016 is shown below.

AUTHORIZED AND ISSUED

	Class I Non-Voting		Class II Voting		Total	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Authorized:	300,000,000		50,000,000		350,000,000	
Issued and outstanding:						
December 31, 2014	101,506,223	171	13,635,205	2	115,141,428	173
Purchased and canceled	(275,800)	–	–	–	(275,800)	–
Stock options exercised	158,600	4	–	–	158,600	4
Converted: Class II to Class I	62,200	–	(62,200)	–	–	–
December 31, 2015	101,451,223	175	13,573,005	2	115,024,228	177
Purchased and canceled	**(460,000)**	**(1)**	–	–	**(460,000)**	**(1)**
Stock options exercised	**89,000**	**3**	–	–	**89,000**	**3**
Converted: Class II to Class I	**141,100**	–	**(141,100)**	–	–	–
December 31, 2016	**101,221,323**	**177**	**13,431,905**	**2**	**114,653,228**	**179**

Class I and Class II Shares have no par value.

MID-TERM INCENTIVE PLAN

The Company's MTIP trust is considered a special purpose entity which is consolidated in these financial statements. The Class I Shares, while held in trust, are accounted for as a reduction of share capital. The consolidated Class I and Class II Shares outstanding at December 31 is shown below.

	2016		2015	
	Shares	**Amount**	**Shares**	**Amount**
Shares issued and outstanding	**114,653,228**	**179**	115,024,228	177
Shares held in trust for the mid-term incentive plan	**(300,824)**	**(12)**	(306,987)	(12)
Shares outstanding, net of shares held in trust	**114,352,404**	**167**	114,717,241	165

DIVIDENDS

The Company declared and paid cash dividends of $1.1400 per Class I and Class II Share during 2016 (2015 - $0.9900). 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 in the first quarter of each year. The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 12, 2017, the Company declared a first quarter dividend of $0.3275 per Class I and Class II Share.

SHARE OWNER RIGHTS

Each Class II Share may be converted into one Class I Share at any time at the share owner's option. If an offer to purchase all Class II Shares is made, and such offer is accepted and taken up by the owners of a majority of the Class II Shares, and if, at the same time, an offer is not made to the Class I Share owners on the same terms and conditions, then the Class I Shares will be entitled to the same voting rights as the Class II Shares. The two share classes rank equally in all other respects.

NORMAL COURSE ISSUER BID

On March 2, 2015, ATCO Ltd. began a normal course issuer bid to purchase up to 2,030,168 outstanding Class I Non-Voting Shares. The bid expired on February 29, 2016. On March 1, 2016, ATCO Ltd. began a new normal course issuer bid to purchase up to 3,043,884 outstanding Class I Non-Voting Shares. The bid expired on February 28, 2017.

During the year ended December 31, 2016, 460,000 shares were purchased for $18 million (2015 - 275,800 shares were purchased for $10 million). The purchases resulted in a decrease to share capital and retained earnings of $1 million and $17 million, respectively (2015 - nil and $10 million).

23. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITES

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

	2016	2015
Depreciation, amortization and impairment	**615**	756
Gain on sales of operations and revaluation of joint venture	**(18)**	(49)
Earnings from investment in joint ventures, net of dividends and distributions received	**(1)**	18
Income taxes	**258**	198
Unearned availability incentives	**(14)**	(30)
Contributions by customers for extensions to plant	**104**	197
Amortization of customer contributions	**(64)**	(59)
Net finance costs	**380**	289
Income taxes paid	**(63)**	(81)
Other	**40**	(6)
	1,237	1,233

CHANGES IN NON-CASH WORKING CAPITAL

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

	2016	2015
Operating activities		
Accounts receivable	**5**	47
Inventories	**25**	(26)
Prepaid expenses and other current assets	**2**	13
Accounts payable and accrued liabilities	**(9)**	16
Provisions and other current liabilities	**(68)**	41
	(45)	91
Investing activities		
Accounts receivable	**(1)**	6
Inventories	**1**	29
Prepaid expenses	**(2)**	–
Accounts payable and accrued liabilities	**(135)**	(95)
	(137)	(60)

CASH POSITION

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

	2016	2015
Cash	**563**	666
Short-term investments	**3**	85
Restricted cash [1]	**40**	49
Cash and cash equivalents	**606**	800
Bank indebtedness	**(5)**	(1)
	601	799

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

24. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

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

FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

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

Recurring Measurements	Note	2016 Carrying Value	2016 Fair Value	2015 Carrying Value	2015 Fair Value
Financial Assets					
Lease receivables	10	**314**	**433**	311	493
Receivable under service concession arrangement	15	**77**	**77**	_	_
Financial Liabilities					
Long-term debt	18	**8,220**	**9,139**	7,943	8,679
Non-recourse long-term debt	19	**98**	**114**	112	137

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At December 31, 2016, the following derivative instruments were outstanding:

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

The balance sheet classification and fair values of the Company's derivative financial instruments at December 31 are as follows:

	Subject to Hedge Accounting		Not Subject to Hedge Accounting		
Recurring Measurements	**Interest Rate Swaps**	**Commodities**	**Commodities**	**Foreign Currency Forward Contracts**	**Total Fair Value of Derivatives**
2016					
Financial Assets					
Prepaid expenses and other current assets	_	**6**	**7**	_	**13**
Other assets	_	**17**	**6**	_	**23**
Financial Liabilities					
Other current liabilities	_	_	**2**	_	**2**
Other liabilities	**3**	**7**	**5**	_	**15**
2015					
Financial Assets					
Prepaid expenses and other current assets	_	4	1	1	6
Other assets	_	3	_	_	3
Financial Liabilities					
Other current liabilities	_	3	2	_	5
Other liabilities	_	5	_	_	5

During the year ended December 31, 2016, losses before income taxes of $9 million were recognized in other comprehensive income (OCI) (2015 - gains of $1 million) and gains before income taxes of $1 million were reclassified to the statement of earnings (2015 - $2 million).

There was hedge ineffectiveness of $4 million during 2016 that was recognized in the statement of earnings (2015 - nil). Over the next 12 months, the Company estimates that gains before income taxes of $6 million will be reclassified from accumulated other comprehensive income (AOCI) to earnings.

Notional and maturity summary

The notional value and maturity dates of the Company's derivative instruments outstanding at December 31 are as follows:

	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Notional value and maturity	**Interest Rate Swaps**	**Natural Gas (1)**	**Power (2)**	**Natural Gas (1)**	**Power (2)**	**Foreign Currency Forward Contracts**
2016						
Purchases (3)	–	**24,892,000**	–	**35,985,800**	**3,755,080**	–
Sales (3)	–	–	**3,027,960**	**20,421,000**	**4,055,037**	–
Currency						
Canadian dollars	**4**	–	–	–	–	–
Australian dollars	**754**	–	–	–	–	–
U.S. dollars	–	–	–	–	–	**35**
Maturity	**2019-2020**	**2017-2021**	**2017-2020**	**2017-2021**	**2017-2020**	**2017**
2015						
Purchases (3)	–	19,479,000	–	6,767,000	556,080	–
Sales (3)	–	–	2,722,233	1,761,000	65,720	–
Currency						
Canadian dollars	6	–	–	–	–	–
Australian dollars	759	–	–	–	–	–
U.S. dollars	–	–	–	–	–	35
Maturity	2019-2020	2016-2020	2016-2020	2016-2018	2016-2017	2016

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

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

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

OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Netting arrangements and similar agreements provide counterparties the legal right to set-off liabilities against assets received. The following financial assets and financial liabilities are subject to offsetting at December 31:

	Effects of Offsetting on the Balance Sheet			Related Amounts not Offset		
	Gross Amount	Gross Amount Offset	Net Amount Recognized	Amounts Subject to Master Netting Arrangements	Financial Instrument Collateral	Net Amount
2016						
Financial Assets						
Derivative assets [1]	**36**	–	**36**	**(1)**	**(19)**	**16**
Accounts receivable	**69**	**(19)**	**50**	–	–	**50**
Financial Liabilities						
Derivative liabilities [1]	**14**	–	**14**	**(1)**	–	**13**
2015						
Financial Assets						
Derivative assets [1]	8	–	8	(2)	(4)	2
Accounts receivable	60	(25)	35	–	–	35
Financial Liabilities						
Derivative liabilities [1]	10	–	10	(2)	–	8

(1) The Company enters into derivative transactions based on master agreements in which there is a set-off provision under certain circumstances, such as default. The agreements do not meet the criteria for offsetting in the consolidated balance sheet since the Company does not presently have a legally enforceable right to set-off. This right is enforceable only if certain credit events occur in the future.

25. RISK MANAGEMENT

FINANCIAL RISKS

The Company is exposed to a variety of risks associated with the use of financial instruments: market risk, credit risk and liquidity risk. The Company may use various derivative financial instruments to manage its exposure in these areas. All such instruments are used to manage risk and are not for trading purposes.

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 share owners, 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 established the Audit & Risk Committee to review 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. This committee 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.

MARKET RISK

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company's interest-bearing assets and liabilities include cash and cash equivalents, bank indebtedness, long-term debt and non-recourse long-term debt. The interest rate risk faced by the Company is primarily due to its cash and cash equivalents and floating rate long-term debt.

Cash and cash equivalents include fixed rate instruments with maturities of generally 90 days or less that are reinvested as they mature. The Company is exposed to interest rate movements after these investments mature.

The Company's risk management policy is to hedge all material interest rate risk exposures related to long-term financings when the risk is incurred, unless commercial arrangements or mechanisms are in place to offset such interest rate risk. The Company has fixed interest rates, either directly or through interest rate swap agreements, on 100 per cent (2015 - 99 per cent) of total long-term debt and non-recourse long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited.

A 25 basis point increase or decrease in Australian interest rates would increase or decrease OCI by $3 million. This analysis has been determined based on the exposure to interest rates for financial instruments outstanding at December 31, 2016.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk from financial instruments denominated in currencies other than the functional currency of an operation and on its net investments in foreign subsidiaries. The majority of this currency risk arises from exposure to the U.S. dollar and Australian dollar. The Company offsets foreign exchange volatility in part by entering into foreign currency derivative contracts and by financing with foreign-denominated debt. The Company's risk management policy is to hedge all material transactions with foreign exchange risks arising from the sale or purchase of goods and services where revenue or the costs to be incurred are denominated in a currency other than the functional currency of the transacting company.

A 10 per cent increase or decrease in foreign exchange rates would each increase or decrease OCI by the following:

	OCI
U.S. dollar	7
Australian dollar	53

The sensitivity analysis is based on management’s assessment that an average 10 per cent increase or decrease in this currency relative to the Canadian dollar is a reasonable potential change over the next year. This analysis has been determined based on the exposure to foreign exchange for financial instruments outstanding at December 31, 2016.

The sensitivity analysis excludes translation risk associated with the translation of subsidiaries that have a different functional currency than the functional currency of the Company.

Energy commodity price risk

Energy commodity price risk is the risk that the fair value or future cash flows of natural gas and power sales and purchases will fluctuate due to changes in market prices. The Company’s electricity generation business is exposed to commodity price movements, particularly to the market price of electricity and natural gas. At December 31, 2016, approximately 743 MW of power generating plant capacity out of a total capacity owned by ATCO Power of 2,297 MW is merchant capacity, which can be sold in the Alberta merchant electricity market.

Natural gas for contracted capacity is provided either under a long-term supply agreement or is the responsibility of the off-taker. Natural gas capacity not contracted is purchased on a daily basis at spot prices. The Company pays market prices for substitute energy when it is unable to supply energy from its contracted capacity.

The Company’s policy is to hedge and optimize the available merchant capacity related to electricity production and related natural gas consumption. The Company enters into natural gas purchase contracts and forward power sales contracts as the hedging instrument to manage the exposure to electricity and natural gas market price movements. Hedge accounting is applied up to an allowable amount of forecasted merchant production to a maximum of a five year term.

The Company is also exposed to seasonal summer/winter natural gas price spreads in its natural gas storage business.

A 10 per cent increase or decrease in the forward price of natural gas or power in Alberta would each increase or decrease earnings and OCI by $5 million and $9 million, respectively. This analysis assumes that changes in the forward price of natural gas affect the mark-to-market adjustment of the natural gas purchase contracts derivative asset.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparties inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and cash equivalents, accounts receivable, derivative instrument assets, receivable under service concession arrangement and lease receivables. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated 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 credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

Changes during the year in the Company's allowance for doubtful accounts was as follows:

	2016	**2015**
Beginning of year	8	6
Impairment of receivables	–	2
Receivables written off as uncollectible	**(4)**	–
End of year	**4**	8

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

	2016	**2015**
30 to 90 days	**19**	15
Greater than 90 days	**5**	13
	24	28

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to its terms and conditions. This risk is minimized by dealing with large, credit-worthy counterparties according to established credit approval policies.

Lease receivable credit risk arises from the possibility that a counterparty to a lease arrangement fails to make lease payments according to its terms and conditions. This risk is minimized by dealing with large, credit-worthy counterparties according to established credit approval policies.

Receivable under service concession arrangement credit risk arises from the possibility that the counterparty to the service concession arrangement fails to make payments according to its terms and conditions. This risk is minimized as the counterparty is the AESO, which is a large, credit-worthy counterparty.

The Company does not have a concentration of credit risk with any counterparty, except for lease receivables and long-term receivable under service concession arrangement, which by their nature are with a single counterparty.

At December 31, 2016, the Company held $233 million in letters of credit for certain counterparty receivables (2015 - $259 million). The Company did not take possession of any collateral it holds as security in 2016 and 2015. The Company has also entered into guarantee arrangements with Centrica plc. relating to the retail energy supply functions performed by Direct Energy (see Note 32).

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. The Company considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. 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, non-recourse long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans are also used under available credit lines to provide flexibility in the timing and amounts of long-term financing.

Lines of credit

The Company has the following lines of credit that enable it to obtain financing for general business purposes:

			2016			2015
	Total	Used	Available	Total	Used	Available
Long-term committed	**2,687**	**516**	**2,171**	3,034	563	2,471
Short-term committed	**78**	**9**	**69**	–	–	–
Uncommitted	**324**	**137**	**187**	323	124	199
	3,089	**662**	**2,427**	3,357	687	2,670

Long-term committed credit facilities have maturities greater than one year. Uncommitted credit facilities have no set maturity and the lender can demand repayment at any time.

Lines of credit utilized at December 31 are comprised of:

	2016	2015
Current bank indebtedness	**5**	1
Short-term debt (*Note 16*)	**55**	–
Long-term debt (*Note 18*)	**414**	494
Letters of credit	**188**	192
	662	687

Commercial paper

The Company is authorized to issue $1.2 billion of commercial paper against its long-term committed credit facilities.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2016 of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2017	2018	2019	2020	2021	2022 and thereafter
Bank indebtedness	5	–	–	–	–	–
Accounts payable and accrued liabilities	694	–	–	–	–	–
Short-term debt	55	–	–	–	–	–
Long-term debt:						
Principal	155	8	1,142	162	160	6,635
Interest expense (1)	392	384	367	328	310	6,336
Non-recourse long-term debt:						
Principal	14	15	15	14	11	30
Interest expense	7	6	5	4	3	4
Derivatives (2)	2	4	5	5	–	–
	1,324	417	1,534	513	484	13,005

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2016. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2016.

26. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

1. Safeguard the Company's ability to continue as a going concern so it can continue to provide returns to share owners and benefits for other stakeholders.
2. Maintain strong investment-grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.
3. Remain within the capital structure approved by the AUC for the utilities.

The Company considers both its regulated and non-regulated operations, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to share owners, issue or purchase Class I and Class II Shares, issue or redeem preferred shares, and issue or repay short-term debt, long-term debt and non-recourse long-term debt. Financing decisions are based on assessments by management in line with the Company's objectives, with a goal of managing the financial risk to the Company as a whole.

While the Alberta utilities have as their objective to be capitalized according to the AUC-approved capital structure, the Company as a whole is not restricted in the same manner. The Company sets its capital structure relative to risk and to meet financial and operational objectives, while factoring in the decisions of the regulator.

The Company also manages capital to comply with the customary covenants on its long-term debt. A common financial covenant for a large portion of the Company's debentures and credit facilities is that total debt divided by total capitalization must be less than 75 per cent. The Company defines total debt as the sum of bank indebtedness, short-term debt, long-term debt and non-recourse long-term debt (including their respective current portions). It defines total capitalization as the sum of Class I and Class II Shares, contributed surplus, retained earnings, AOCI, NCI and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

Debt capitalization does not have standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. Also, the definitions of total debt and total capitalization vary slightly in the Company's debt-related agreements.

The Company's capitalization at December 31 is as follows:

	2016	2015
Bank indebtedness	**5**	1
Short-term debt	**55**	–
Long-term debt	**8,220**	7,943
Non-recourse long-term debt	**98**	112
Total debt	**8,378**	8,056
Class I and Class II Shares	**167**	165
Contributed surplus	**11**	11
Retained earnings	**3,345**	3,130
Accumulated other comprehensive income	**23**	50
Non-controlling interests	**3,653**	3,537
Total equity	**7,199**	6,893
Total capitalization	**15,577**	14,949
Debt capitalization	**54%**	54%

For the year ended December 31, 2016, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

27. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

SIGNIFICANT ACCOUNTING JUDGMENTS

Joint arrangements

Judgment is required when assessing the classification of a joint arrangement as a joint operation or a joint venture. When making this assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements, and other facts and circumstances.

Service concession arrangements

Judgment is required when assessing whether contracts with government entities fall within the scope of IFRIC 12 *Service Concession Arrangements*. Judgment also needs to be exercised when determining the classification to be applied to the service concession asset, allocation of consideration between revenue generating activities, classification of costs incurred and the effective interest rate to be applied to the service concession asset.

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. Measurement uncertainty is increased where the Company is not the operator of a facility. 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.

Leases

The Company evaluates contract terms and conditions to determine whether they contain or are leases. Where a lease exists, the Company determines whether substantially all of the significant risks and rewards of ownership are transferred to the customer, in which case it is accounted for as a finance lease, or remain with the Company, in which case it is accounted for as an operating lease.

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.

When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings 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, using a probability weighting of possible outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution of natural gas and electricity. The estimate is derived from unbilled gas and electricity distribution services 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.

Service concession arrangements

Contracts falling under IFRIC 12 require the use of estimates over the term of the arrangement, including estimates of the services performed to date as a proportion of the total services to be performed. Any change in the long term estimates could result in significant variation in the amounts recognized under service concession arrangements.

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, existing long-term sales agreements and contracts, current and forecast demand, 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 20.

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.

28. SUBSIDIARIES

Principal operating subsidiaries are listed below. Subsidiaries are wholly owned, unless otherwise indicated.

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
CU Inc.	Canada	Holding company
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines	Canada	Natural gas transmission and related infrastructure development
Canadian Utilities Limited (1)	Canada	Holding company
ATCO Power	Canada	Electricity generation and related infrastructure services
Alberta PowerLine (2)	Canada	Design, build, own, and operate transmission infrastructure
ATCO Energy Solutions	Canada	Develops, owns and operates non-regulated energy and water-related infrastructure
ATCO Gas Australia	Australia	Natural gas distribution
ATCO Power Australia	Australia	Electricity generation
ATCO Energy	Canada	Electricity and natural gas retailer
ATCO Structures & Logistics (3)	Canada	Workforce housing, modular facilities, site support services and logistics and operations management.

(1) At December 31, 2016, ATCO Ltd. has an ownership interest of 52.8 per cent (2015 - 53.1 per cent).

(2) At December 31, 2016 and 2015, Canadian Utilities Limited has an ownership interest of 80.0 per cent.

(3) ATCO Ltd. has an ownership interest of 75.5 per cent and Canadian Utilities Limited, has an ownership interest of 24.5 percent. On a consolidated basis, the Company owns 88.5 per cent of ATCO Structures & Logistics.

29. JOINT ARRANGEMENTS

JOINT OPERATIONS

Significant joint operations, all of which are included in the Electricity segment, are listed below.

Significant Joint Operations	Operating Jurisdiction	Ownership %	Principal Activity
Sheerness Generating Plant	Canada	50.0	Electricity generation
Joffre Cogeneration Plant	Canada	40.0	Electricity generation
Cory Cogeneration Plant	Canada	50.0	Electricity generation
Muskeg River Cogeneration Plant	Canada	70.0	Electricity generation

JOINT VENTURES

The following joint ventures are considered the most significant; however, they are not individually material to the operations of the Company.

Significant Joint Ventures	Segment	Operating Jurisdiction	Ownership %	Principal Activity
Brighton Beach Plant	Electricity	Canada	50.0	Electricity generation
Osborne Cogeneration Plant	Electricity	Australia	50.0	Electricity generation
Strathcona Storage Limited Partnership	Pipelines & Liquids	Canada	60.0	Hydrocarbon storage
Sabinco Soluciones Modulares S.A.	Structures & Logistics	Chile	50.0	Modular structures

Aggregate information for the Company's interest in joint ventures is shown below.

	2016	2015
Earnings for the year	**22**	3
Other comprehensive income (loss)	**1**	(1)
Comprehensive income for the year	**23**	2
Dividends received	**21**	21
Aggregate carrying amount of interests in joint ventures	**239**	194

Investment in joint ventures

In April 2016, the Company expanded its international modular structures business into the Chilean market by investing $25 million in Sabinco Soluciones Modulares S.A. (Sabinco) for a 50 per cent ownership interest. At December 31, 2016, $21 million has been paid. The remaining $4 million will be paid in March 2017. Sabinco will operate under the name ATCO-Sabinco S.A. The Company has accounted for its 50 per cent ownership interest as a joint venture which is reported in the Structures & Logistics segment.

In 2016, the Company contributed $59 million to the Strathcona Storage Limited Partnership, which is developing salt caverns for hydrocarbon storage (2015 - $28 million).

In March 2016, the Company increased its ownership in Barking from 51 per cent to 100 per cent. Barking was previously accounted for as a joint venture and is now consolidated.

Impairment

In June 2015, the Company recognized an impairment of $8 million in equity earnings, in the Structures & Logistics segment, relating to certain lodge joint venture assets. 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. After recognizing this impairment, the recoverable amount of these assets was nil at December 31, 2015. This amount was determined using value in use.

Commitments

The joint ventures have contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on the contractual undiscounted cash flows, was $175 million at December 31, 2016.

Restrictions

The Company requires approval from its joint venture partners before any dividends or distributions can be paid.

30. NON-CONTROLLING INTERESTS

Non-controlling interests in Canadian Utilities Limited at December 31 are as follows:

	2016	2015
Class A non-voting shares and Class B common shares	**%**	**%**
Total ownership interest held	**47.2**	46.9
Proportion of voting rights held	**10.7**	11.7
Proportion of non-voting rights held	**61.1**	60.6

The summarized consolidated financial information for Canadian Utilities Limited, before inter-company eliminations, is provided below.

	2016	2015
Consolidated Statement of Comprehensive Income		
Revenues	**3,399**	3,264
Earnings for the year	**629**	360
Total comprehensive income	**580**	491
Attributable to NCI:		
Earnings for the year	**335**	202
Total comprehensive income	**313**	263
Consolidated Balance Sheet		
Current assets	**985**	1,057
Non-current assets	**17,796**	17,012
Current liabilities	**(892)**	(799)
Non-current liabilities	**(11,469)**	(11,077)
Net assets	**6,420**	6,193
Attributable to NCI	**3,653**	3,537
Consolidated Statement of Cash Flows		
Cash flows from operating activities	**1,622**	1,616
Cash flows used in investing activities	**(1,456)**	(1,806)
Cash flows (used in) from financing activities	**(341)**	353
(Decrease) increase in cash position	**(175)**	163
Dividends paid to NCI		
Class A and Class B share owners	**112**	99
Equity preferred shares	**75**	64
	187	163

CANADIAN UTILITIES LIMITED DIVIDEND REINVESTMENT PLAN

Canadian Utilities Limited has a dividend reinvestment plan (DRIP) that allows eligible Class A non-voting and Class B common share owners of Canadian Utilities Limited to reinvest all or a portion of their dividends in additional Class A non-voting shares.

During 2016, NCI acquired 1,484,241 Class A non-voting shares of Canadian Utilities Limited, using re-invested dividends of $52 million (2015 - 1,312,550 shares using re-invested dividends of $47 million). The shares were priced at an average of $35.01 per share (2015 - $35.49 per share).

EQUITY PREFERRED SHARES

Equity preferred shares held by non-controlling interests at December 31 are shown below.

	2016	2015
Cumulative Redeemable Preferred Shares, at 2.24% to 4.60%	**190**	190
Cumulative Redeemable Second Preferred Shares, at 4.00% to 5.25%	**1,400**	1,400
Perpetual Cumulative Second Preferred Shares, at 4.00%	**110**	110
Issuance costs	**(30)**	(30)
	1,670	1,670

Effective June 1, 2016, the annual dividend rate for the Series 4 Preferred Shares was reset to 2.24 per cent for the five-year period commencing June 1, 2016. Prior to June 1, 2016, the annual dividend rate was 3.80 per cent.

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. 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. Issuance costs of $7 million, net of income taxes, were recorded as a reduction of NCI in the year ended December 31, 2015.

Rights and privileges

Preferred shares	Redemption Amount (1)	Quarterly Dividend (2)	Reset Premium (3)	Date Redeemable/ Convertible	Convertible To
Cumulative Redeemable Preferred Shares					
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.1401875	1.36%	June 1, 2021 (4)	Series 5 (5)
Cumulative Redeemable Second Preferred Shares					
Series Y	25.00	0.2500	2.40%	June 1, 2017 (4)	Series Z (5)
Series AA	25.00	0.30625	Does not reset	September 1, 2017 (6)	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 (6)	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 (6)	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 (6)	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 (6)	Not convertible
Series FF	25.00	0.28125	3.69%	December 1, 2020 (4)	Series GG (5)

(1) Plus accrued and unpaid dividends.

(2) Cumulative, payable quarterly as and when declared by the Board.

(3) Dividend rate will reset on the date redeemable/convertible and every five years thereafter at a rate equal to the Government of Canada yield plus the reset premium noted.

(4) Redeemable by the Company or convertible by the holder on the date noted and every five years thereafter.

(5) If converted, holders will be entitled to receive quarterly floating rate dividends equal to the Government of Canada Treasury Bill yield plus the reset premium noted. Holders have the option to convert back to the original preferred shares series on subsequent redemption dates.

(6) Subject to a redemption premium of 4 per cent per share. The redemption premium declines by 1 per cent in each succeeding twelve month period from the redeemable date.

The Series V Perpetual Cumulative Second Preferred Shares are redeemable at the option of the Company on October 3, 2017, at the stated value plus accrued and unpaid dividends.

31. SHARE-BASED COMPENSATION PLANS

PLAN FEATURES

Share based forms of compensation are granted at the discretion of the Corporate Governance – Nomination, Compensation and Succession Committee. Plan features are described below.

Form of compensation	Eligibility	Vesting Period	Term	Settlement
Stock options (1)	Officers and key employees	20% per year over 5 years	10 years	Class I Non-Voting Shares (3)
Share appreciation rights (1)	Directors, officers and key employees	20% per year over 5 years	10 years	Cash
Mid-term incentive plan	Officers and key employees	2-3 years (2)	2-3 years	Class I Non-Voting Shares (4)

(1) *Exercise price is equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant.*

(2) *Based on achieving certain performance criteria.*

(3) *Issued from Treasury.*

(4) *Purchased on the secondary market.*

STOCK OPTION PLAN

Information about the options outstanding and exercisable at December 31 is summarized below.

	2016		2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options authorized for grant	**10,200,000**		10,200,000	
Options available for issuance	**2,732,750**		2,815,000	
Outstanding options, beginning of year	678,100	$34.49	762,900	$30.52
Granted	**86,750**	**39.17**	87,250	46.85
Exercised	**(89,000)**	**25.17**	(158,600)	21.41
Forfeited	**(4,500)**	**45.19**	(13,450)	43.28
Outstanding options, end of year	**671,350**	**$36.26**	678,100	$34.49
Options exercisable, end of year	**422,050**	**$31.61**	438,050	$28.47

Options		Outstanding			Exercisable
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$22.94	126,000	1.2	$22.94	126,000	$22.94
$25.35 - $29.47	135,950	3.6	26.47	135,950	26.47
$35.12 - $39.75	159,650	7.3	37.16	60,500	35.18
$44.20 - $44.97	88,750	6.3	44.96	51,950	44.97
$45.83 - $47.70	85,750	8.2	46.93	17,550	46.93
$51.96 - $51.97	75,250	7.2	51.96	30,100	51.96
$22.94 - $51.97	671,350	5.4	$36.26	422,050	$31.61

Compensation expense related to stock options was less than $1 million in each of 2016 and 2015, with a corresponding increase to contributed surplus.

SHARE APPRECIATION RIGHTS

Information about the stock appreciation rights (SARs) outstanding and exercisable at December 31 is summarized below.

	2016		2015	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	790,500	$35.19	731,300	$33.13
Granted	**102,750**	**39.47**	104,250	46.85
Exercised	**(123,900)**	**26.05**	(31,600)	22.52
Forfeited	**(29,500)**	**42.09**	(13,450)	43.28
Outstanding SARs, end of year	**739,850**	**$37.04**	790,500	$35.19
SARs exercisable, end of year	**419,550**	**$31.66**	454,450	$28.45

SARs		Outstanding		Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$22.94	123,500	1.2	$22.94	123,500	$22.94
$25.35 - $29.47	135,950	3.6	26.47	135,950	26.47
$35.12 - $39.75	181,650	7.3	37.12	60,500	35.18
$44.20 - $44.97	108,750	6.4	44.95	51,950	44.97
$45.83 - $47.70	104,750	8.2	46.91	17,550	46.93
$51.96 - $51.97	85,250	7.2	51.96	30,100	51.96
$22.94 - $51.97	739,850	5.6	$37.04	419,550	$31.66

In 2016, compensation expense related to SARs was $3 million (2015 - credit of $5 million). The total carrying value of liabilities arising from SARs at December 31, 2016 was $6 million (2015 - $5 million). The total intrinsic value of all vested SARs at December 31, 2016 was $6 million (2015 - $4 million).

STOCK OPTION AND SARS WEIGHTED AVERAGE ASSUMPTIONS

The Company uses the Black-Scholes option pricing model to estimate the weighted average fair value of the stock options and SARs granted. The following weighted average assumptions were used:

	2016		2015	
	Options	SARs	Options	SARs
Class I share price	**$39.17**	**$39.47**	$45.79	$46.85
Risk-free interest rate	**0.73%**	**0.72%**	0.81%	0.83%
Share price volatility (1)	**25.65%**	**20.87%**	22.78%	22.22%
Estimated annual Class I share dividend	**2.91%**	**2.89%**	2.07%	2.12%
Expected holding period prior to exercise	**7.1 years**	**6.0 years**	7.0 years	6.0 years

(1) The share price volatility is based on historical data and reflects the assumption that historical volatility over a period similar to the life of the option or SAR is indicative of future trends, which may not necessarily be indicative of exercise patterns that may occur.

MID-TERM INCENTIVE PLAN

Information about the MTIPs outstanding at December 31 is summarized below.

	2016		2015	
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	306,987	$47.94	310,692	$44.26
Granted	**103,118**	**41.76**	123,750	47.06
Vested	**(7,000)**	**52.79**	(95,650)	35.62
Forfeited	**(101,380)**	**45.73**	(31,400)	48.73
Change in unallocated shares (1)	**(901)**	–	(405)	–
Outstanding MTIPs, end of year	**300,824**	**$46.32**	306,987	$47.94

(1) Unallocated shares are Class I Shares held by the trustee which have not been awarded to officers or key employees.

MTIPs			Outstanding
Range of Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value
$37.05 - $39.75	56,000	2.2	$38.92
$42.29 - $44.76	47,350	1.9	43.19
$46.00 - $48.37	112,388	1.5	47.88
$51.97 - $53.79	59,050	0.2	52.88
Unallocated shares	26,036	–	–
$37.05 - $53.79	300,824	1.4	$46.32

Compensation expense related to MTIP grants was a credit of less than $1 million for 2016 (2015 - expense of $4 million) with a corresponding decrease (2015 - increase) to contributed surplus.

The Company, through a trustee, did not purchase any shares during 2016 to be distributed to employees on vesting of the awards (2015 - $5 million).

32. CONTINGENCIES

Measurement inaccuracies occur from time to time on electricity and gas metering facilities. The measurement adjustments relating to the Canadian utilities are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The AUC may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate. The measurement adjustments relating to ATCO Gas Australia are reconciled by the market operator and settled between the parties. Recovery of the costs is via a predetermined allowance contained in the current Access Arrangement.

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 consolidated financial statements.

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy. The legal obligations of ATCO Gas and ATCO Electric for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric, with no refund of the transfer proceeds to Direct Energy. Centrica plc., Direct Energy's parent company, provided a $300 million guarantee, supported by a $235 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

33. COMMITMENTS

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

	2017	2018	2019	2020	2021	2022 and thereafter
Operating leases	29	25	10	10	7	1
Purchase obligations:						
Coal purchase contracts	64	66	70	71	74	145
Operating and maintenance agreements	293	290	254	108	106	337
Capital expenditures	593	564	125	7	7	–
Other	8	1	–	2	2	–
	987	946	459	198	196	483

34. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH SUBSIDIARY

During the year ended December 31, 2015, the Company acquired 1,479,752 Class A non-voting shares of Canadian Utilities Limited under its DRIP, using re-invested dividends of $52 million. The shares were priced at an average of 35.37 per share. The Company did not participate in the DRIP during 2016.

OTHER

In transactions with the Company's joint ventures, the Company recognized revenues of $10 million relating to management fees and other charges (2015 - $6 million).

In transactions with the Company's group pension plans, the Company paid occupancy costs of $8 million relating to property owned by the pension plans (2015 - $8 million).

The Company incurred $2 million in advertising, promotion and other expenses from an entity related through common control (2015 - $2 million).

KEY MANAGEMENT COMPENSATION

Information on management compensation is shown below.

	2016	2015
Salaries and short-term employee benefits	**7**	9
Retirement benefits	**2**	2
Share-based compensation	**6**	(4)
	15	7

Key management personnel comprise members of executive management and the Board, a total of 17 individuals (2015 - 19 individuals).

35. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Subsidiaries are consolidated from the date control is obtained until the date control ends. Control exists where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power over the investee to affect returns.

All intra-group balances and transactions are eliminated on consolidation.

Interests in subsidiaries owned by other parties are included in NCI. NCI in subsidiaries are identified separately from equity attributable to Class I and Class II owners of the Company. Earnings and each component of OCI are attributed to the Class I and Class II owners of the Company and to NCI, even if this results in the NCI having a deficit balance. Earnings attributable to the Class I and Class II owners are determined after adjusting for dividends on equity preferred shares held by NCI.

Changes in the Company's ownership interests that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interest and the NCI are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Class I and Class II owners of the Company.

JOINT ARRANGEMENTS

A joint arrangement can be classified as either a joint operation or joint venture and represents the contractually agreed sharing of control by two or more parties. A joint operation is an arrangement in which the Company has the rights and obligations to the corresponding assets and liabilities of the arrangement, whereas a joint venture is an arrangement in which the Company has the rights to the net assets of the arrangement.

Joint operations are proportionately consolidated by including the Company's share of assets, liabilities, revenues, expenses and OCI in the respective consolidated accounts.

Joint ventures are equity accounted. Under this method, the Company's interests in joint ventures are initially recognized at cost. The interests are subsequently adjusted to recognize the Company's share of post-acquisition profits or losses, movements in OCI and dividends or distributions received.

The Company's interests in joint ventures are tested for recoverability when events or circumstances indicate a possible impairment. An impairment loss is recognized in earnings when the carrying value of the Company's interest in an individual joint venture is higher than its recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. An impairment loss may be reversed if there is objective evidence that a change in the estimated recoverable amount of the investment is warranted.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value at the acquisition date. Acquisition costs are expensed in the period incurred.

SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are contracts between the Company and government entities and can involve the design, build, finance, operation and maintenance of public infrastructure in which the government entity controls:

(i) the services provided by the Company; and

(ii) a significant residual interest in the infrastructure.

Service concession arrangements are classified as either a financial asset or an intangible asset, or both. A financial asset is recognized when the Company has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement. The financial asset is measured at the fair value of consideration received or receivable upon initial recognition. When the Company delivers more than one category of activities in a service concession arrangement, the consideration received or receivable is allocated by reference to the relative fair value of the activity, when amounts are separately identifiable. The Company recognizes an intangible asset when it has a right to charge for usage of the public infrastructure. The intangible asset is measured at fair value upon initial recognition. Subsequent to initial recognition, both the financial and intangible asset are measured at cost less accumulated amortization and impairment losses, if any.

REVENUE RECOGNITION

Revenues from the regulated distribution of natural gas in Canada and Australia and the regulated distribution of electricity in Canada include variable and fixed charges. Variable charges are recognized using meter readings on delivery of the commodity to customers and include an estimate of usage not yet billed. Fixed charges are based on the distribution service provided during the period.

Revenues for the use of regulated electricity transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from the regulated transmission of natural gas are recognized based on AUC-approved revenue requirement (cost of service).

Certain additions to property, plant and equipment, mainly in the utilities, 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 natural gas or electricity, they are classified as deferred revenues and are recognized in revenues over the life of the related asset.

Revenues from power generating plants are recognized on delivery of output or on availability of delivery as prescribed by contracts. In addition, incentives and penalties associated with the PPAs are recognized in earnings on a straight-line basis as lease income. Accumulated incentives in excess of accumulated penalties are deferred. For an individual PPA, any surplus of the accumulated and estimated future incentives over the accumulated and estimated future penalties is amortized to revenues on a straight-line basis over the remaining term of the PPA. Conversely, any shortfall is expensed in the year the shortfall occurs.

Revenues from natural gas storage and processing capacity are recognized according to contracts. Revenues from the sale of natural gas liquids are recognized on delivery.

Revenues from the supply of contracted products and services are recorded using the percentage of completion method. The percentage of completion is based either on actual labour hours incurred as a proportion of the total estimated labour hours for the contract or on contract costs incurred as a proportion of the total estimated contract costs. Full provision is made for any anticipated loss. Other revenues are recognized when products are delivered or services provided. Billings in excess of earned revenue are classified as deferred revenues on the consolidated balance sheet.

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.

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 fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

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 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. The tax effect of temporary differences from investments in subsidiaries and joint arrangements are not accounted for where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. 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.

Current income tax assets and liabilities are offset where the Company has the legally enforceable right to offset and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset where the Company has a legally enforceable right to set off tax assets and liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank, bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short-term investments with maturities generally of 90 days or less at purchase.

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. The standard cost method is used to approximate cost in the Company's Structures & Logistics manufacturing operations.

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, contracted services and asset retirement costs. 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.

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period to the next major overhaul, which varies from three to eight years. The cost of repair and maintenance activities performed every two years or less which do not enhance or extend the useful life of the asset are expensed when incurred.

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	17 to 66 years	49 years	2.0%
Electricity distribution equipment	14 to 103 years	36 years	2.8%
Gas transmission equipment	3 to 82 years	39 years	2.6%
Gas distribution plant and equipment	3 to 120 years	39 years	2.5%
Power generation plant and equipment:			
Gas-fired	3 to 40 years	23 years	4.3%
Coal-fired	5 to 47 years	39 years	2.6%
Hydroelectric	50 years	50 years	2.3%
Buildings	1 to 50 years	33 years	3.0%
Other:			
Rental assets	12 to 17 years	16 years	6.2%
Other plant, equipment and machinery	1 to 66 years	25 years	3.6%

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 100 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.

GOODWILL

Goodwill is not amortized. The carrying value of goodwill is tested for impairment annually or more frequently if there is an indicator of impairment. Impairment is tested at the operating segment level. If the carrying value of the segment to which goodwill has been assigned exceeds its recoverable amount, then any excess of the carrying value of a segment's goodwill over its recoverable amount is expensed and is not subsequently reversed.

LEASES

A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts due from lessees under finance leases are recorded as finance lease receivables. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

Assets subject to operating leases are included in property, plant and equipment and are depreciated. Income from operating leases is recognized in earnings on a straight-line basis over the lease term.

When the Company has purchased goods or services as a lessee, and the lease is an operating lease, rental payments are expensed on a straight-line basis over the life of the lease.

For both finance and operating leases, contingent rents are recognized in earnings in the period in which they are incurred. Contingent rent is that portion of lease payments that is not fixed in amount but varies based on a future factor, such as the amount of use or production.

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.

ASSET RETIREMENT OBLIGATIONS

AROs are legal and constructive obligations connected with the retirement of tangible long-lived assets. These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for AROs are adjusted to take risks and uncertainties into account and are discounted using a pre-tax, risk-free discount rate.

Initially, an ARO is recorded in provisions, with a corresponding increase to property, plant and equipment. Subsequently, the carrying amount of the provision is accreted over the estimated time period until the obligation is to be settled; the accretion expense is recognized as interest expense. The asset is depreciated over its estimated useful life. Revaluations of the ARO at each reporting period take into account changes in estimated future cash flows and the discount rate.

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, non-recourse 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 objective 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 objective evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount had no impairment charge been recognized in previous periods.

DERIVATIVE FINANCIAL INSTRUMENTS

Contracts settled net in cash or in another financial asset are classified as derivatives, unless they meet the Company's own use requirements.

All derivative financial instruments are 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.

Where the Company elects to apply hedge accounting, the Company documents the relationship between the derivative and the hedged item at inception of the hedge, based on the Company's risk management policies. A qualitative assessment of the effectiveness of the hedging relationship is performed at each reporting period 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 may be 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 in accordance with the appropriate 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.

Cash flow hedges

The Company enters into interest rate swaps, foreign currency forward contracts and natural gas and forward power purchase and sale contracts to offset the risk of volatility in the variable cash flows arising from a recognized asset or liability, a highly probable forecast transaction or a firm commitment in a foreign currency transaction. The effective portion of changes in fair value of the derivative is recognized in OCI, whereas the ineffective portion is recognized in earnings immediately. Sources of hedge ineffectiveness can occur as a result of credit risk, change in hedge ratio, changes in the timing of payment, and forecast adjustments leading to over-hedging. The cumulative gain or loss in AOCI is transferred to earnings when the hedged item affects earnings. If a forecast transaction results in the recognition of a non-financial asset or liability, the amount in AOCI is added to the initial cost of the non-financial asset or liability.

If the Company discontinues hedge accounting, the cumulative gain or loss in AOCI is transferred to earnings at the same time as the hedged item affects earnings.

The amount in AOCI is immediately transferred to earnings if the hedged item is derecognized or it is probable that a forecast transaction will not occur in the originally specified time frame.

RETIREMENT BENEFITS

The Company accrues for its obligations under defined benefit pension and OPEB plans.

Pension plan assets at the balance sheet date are reported at fair value. 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.

The cost for defined benefit plans includes net interest expense. This expense is calculated by applying the discount rate to the net defined benefit asset or liability at the beginning of the year plus projected contributions and benefit payments during the year.

Gains and losses resulting from experience adjustments and changes in assumptions 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 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 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. The change in the present value of the defined benefit pension plans resulting from a curtailment is accounted for as a past service cost. 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.

SHARE-BASED COMPENSATION PLANS

The Company expenses stock options granted by ATCO Ltd. and its subsidiary, Canadian Utilities Limited. The Company determines the fair value of the options on the date of grant. The fair value is recognized over the vesting period of the options granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of the ATCO Ltd. options is recorded in salaries, wages and benefits expense and contributed surplus. Contributed surplus is reduced as the ATCO Ltd. options are exercised, and the amount initially recorded in contributed surplus is credited to Class I and Class II Share capital. The fair value of the Canadian Utilities Limited options is recorded in salaries, wages and benefits expense and non-controlling interests.

SARs are cash-settled and are measured at fair value. The fair value is recognized over the vesting period of the SARs granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of SARs is recorded in salaries, wages and benefits expense and accounts payable and accrued liabilities and other non-current liabilities. The liabilities are re-measured at each reporting period.

The MTIP awards are equity-settled with shares purchased on the secondary market. They are measured at fair value based on the purchase price of the Company's Class I Non-Voting Shares at the date of grant. The awards are held by a trust until the shares are vested, at which time they are transferred to the employee. The fair value of the MTIP awards is recognized in salaries, wages and benefits expense over the vesting period, with a corresponding charge to contributed surplus.

RELATED PARTY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities and non-monetary assets and liabilities measured at fair value denominated in a foreign currency are adjusted to reflect the exchange rate at the balance sheet date. Gains or losses on translation of these monetary and non-monetary items are recognized in earnings. Non-monetary items not measured at fair value are not retranslated after they are first recognized.

Foreign operations

The assets and liabilities of subsidiaries whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the exchange rate at the balance sheet date. Revenues and expenses are translated at the average monthly exchange rates during the period, which approximates the foreign exchange rates on the dates of the transactions. Gains or losses on translation are included in other comprehensive income.

If the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the accumulated foreign currency translation gains or losses related to the foreign operation are recognized in earnings.

The exchange rates for the major currencies used in the preparation of the consolidated financial statements were as follows:

	Exchange Rates as at December 31		Average Exchange Rates for Year Ended December 31	
	2016	**2015**	**2016**	**2015**
U.S. dollar	**1.3427**	1.3840	**1.3256**	1.2788
Australian dollar	**0.9707**	1.0083	**0.9854**	0.9605

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 consolidated financial statements or note disclosures are described below.

Standard	Description	Effective Date
IFRS 15 *Revenue from Contracts with Customers*	This standard replaces IAS 18 *Revenue* and related interpretations. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not yet completed as of the effective date. The Company is party to numerous contracts with customers that will be impacted by the new standard. The Company has established a working group to review the adoption of IFRS 15 and education sessions have been, and will continue to be, provided for employees, senior management and the Audit Committee to increase knowledge, awareness and impacts of the standard. Positions papers on issue-specific differences in the new standard are substantially complete and are in discussion with the Company's external auditor. Under IFRS 15, the timing of revenue recognition for certain contracts may be significantly impacted by the new revenue recognition model and transitional adjustments are currently being reviewed. The Company is currently evaluating the impact of the new standard on financial reporting computer systems and internal controls over financial reporting.	Effective for annual periods on or after January 1, 2018. The Company will not early adopt this standard.
IFRS 16 *Leases*	This standard replaces IAS 17 *Leases* and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize assets and 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. However, lessor accounting remains similar to previous guidance and the distinction between operating and finance leases is retained. The Company has developed a detailed project plan to review and implement the new standard and a working group has been formed to assess its impact.	Effective for annual periods on or after January 1, 2019. The Company will not early adopt this standard.