ATCO LTD.

FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED JUNE 30, 2019

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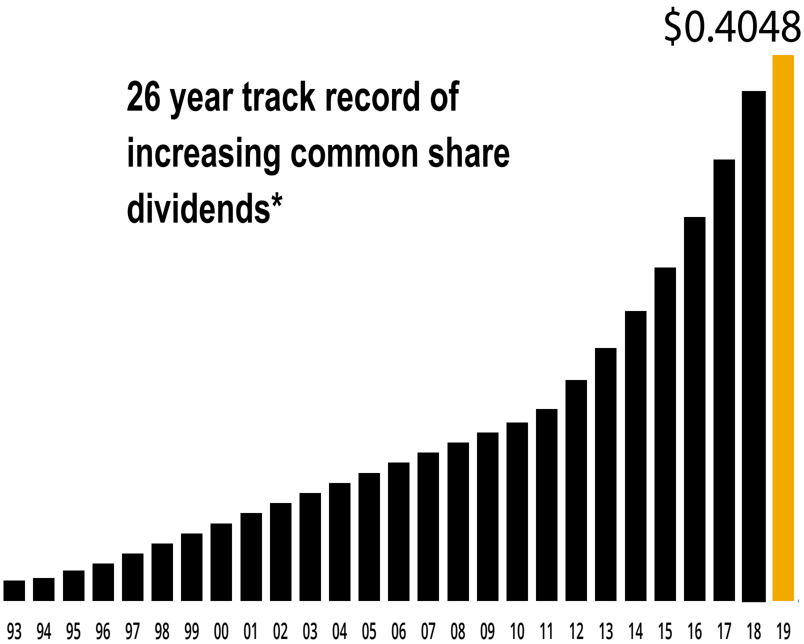
Q2 2019 INVESTOR FACT SHEET

ATCO.COM
STRUCTURES & LOGISTICS | CANADIAN UTILITIES | NELTUME PORTS

ATCO is a diversified global holding corporation with approximately 6,000 employees and assets of $23 billion. ATCO is focused on continuing to grow and expand the business in the select global markets of: Australia, Latin America, United States and Canada. ATCO carefully monitors market opportunities and challenges in each of its investments to best position the Company for long-term success, while continuing to deliver value to share owners.

TRACK RECORD OF DIVIDEND GROWTH



* On July 11, 2019, ATCO declared a third quarter dividend of $0.4048 per share, or $1.62 per share annualized.

HOLDING COMPANY PORTFOLIO STRATEGY

ATCO is focused on investments that put us at the forefront of global trends. We strive to deliver growth within our holding company portfolio with a focus on select opportunities in essential global services.

ATCO AT A GLANCE

72 year history in more than 100 countries	
"A-" rating by Standard & Poor's; "A" (low) rating by DBRS Limited	
Total Assets	$23 billion
Modular Building Manufacturing Locations	8 Globally (2 Canada, 2 United States, 2 Australia, 1 Chile, 1 Mexico)
Electric Powerlines	87,000 kms
Pipelines	64,500 kms
Power Plants	21 Globally
Power Generating Capacity Share	2,517 MW *
Water Infrastructure Capacity	85,200 m^3/d **
Natural Gas Storage Capacity	52 PJ ***
Hydrocarbon Storage Capacity	400,000 m^3 ****
Ports and Port Operations	16 Ports, 3 Port Operation Services

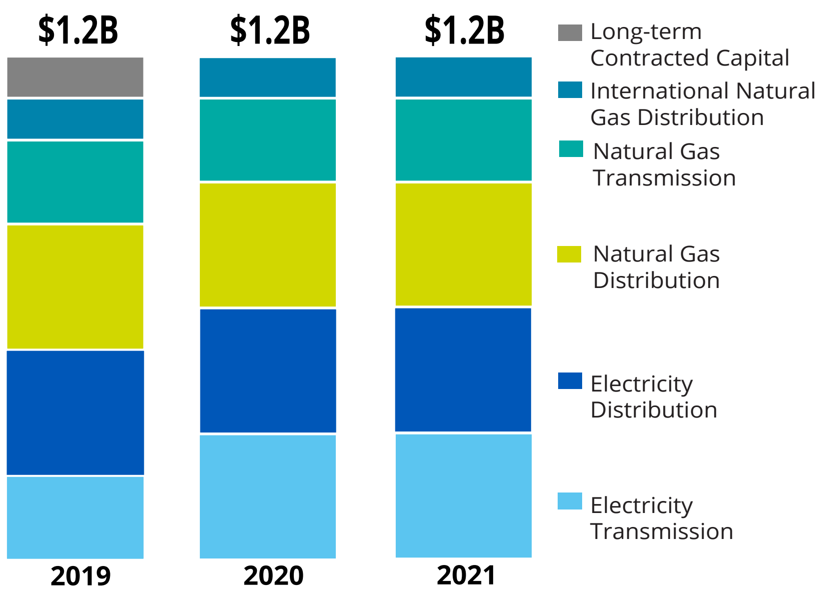
*megawatts **cubic metres per day ***petajoules ****cubic metres

ATCO SHARE INFORMATION

Common Shares (TSX): ACO.X, ACO.Y	
Market Capitalization	$5 billion
Weighted Average Common Shares Outstanding	114.4 million

It is important for prospective owners of ATCO shares to understand that ATCO is a diversified group of companies principally controlled by Sentgraf, a Southern family holding company. It is also important for present and prospective share owners to understand that the ATCO share registry has both Class I Non-Voting (ACO.X) and Class II Voting (ACO.Y) common shares.

FUTURE CAPITAL INVESTMENT

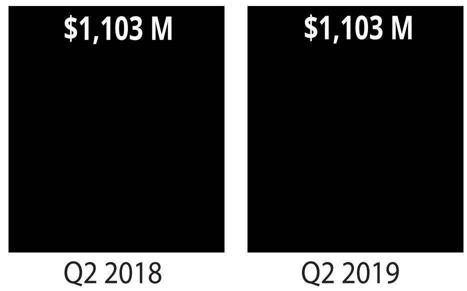


$3.6 billion in capital growth projects expected in 2019 - 2021

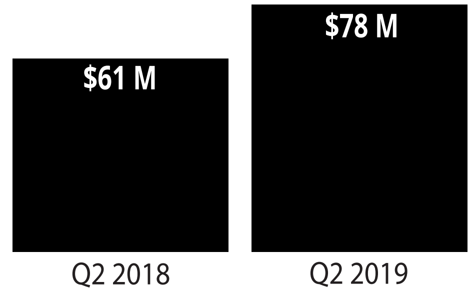
Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations. Certain statements in this document contain forward-looking information. Please refer to our forward-looking information disclaimer in ATCO's management's discussion and analysis for more information.

Q2 2019 RESULTS

CONSOLIDATED REVENUES



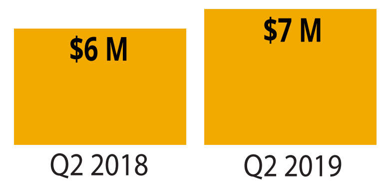
CONSOLIDATED ADJUSTED EARNINGS



STRUCTURES & LOGISTICS

- Higher second quarter 2019 adjusted earnings were mainly due to earnings from the LNG Canada workforce accommodation project, and higher rental activity.
- In the second half of 2019, modular structures business activity will continue to ramp up due to the execution of secured contract work such as LNG Canada, ongoing rental earnings from Chico California, PMC contracts in the US and Canada and orders with major mining companies in Western Australia.
- Modular structures completed the first stage handover of 300 beds in June 2019, for a 600-person camp in Western Australia. Total contract value is $27 million with completion of all 600 beds expected in August 2019.
- Modular structures has secured multiple contracts for approximately $27 million with the Government of British Columbia's supportive housing program in response to the growing issue of homelessness in communities. The first project was successfully handed over in June 2019. The remaining two projects are expected to be complete in the second half of 2019.
- Modular structures was awarded two contracts for a total of $14 million to supply modular product for Marriott hotels in California. These projects are expected to be complete in the second half of 2019.

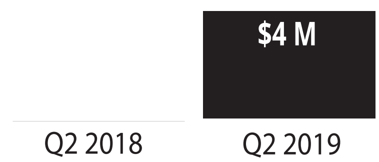
ADJUSTED EARNINGS



NELTUME PORTS

- Neltume Ports recorded adjusted earnings of $4 million in the second quarter of 2019 driven by continued strong movement of copper cargo volumes in Chile. On September 12, 2018, ATCO invested in a 40 per cent interest of Neltume Ports, a leading port operator and developer in South America.

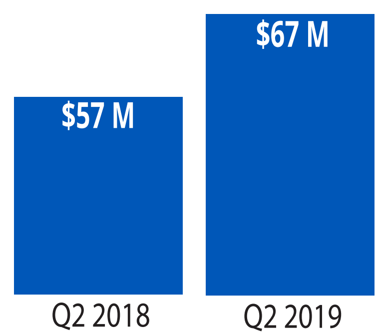
ADJUSTED EARNINGS



CANADIAN UTILITIES

- Higher second quarter 2019 adjusted earnings were mainly due to favourable electricity and natural gas transmission regulatory decisions, ongoing growth in the regulated rate base, cost efficiencies, and lower income taxes.
- In May 2019, Canadian Utilities entered into definitive agreements to sell its entire Canadian fossil fuel-based electricity generation portfolio for aggregate proceeds of approximately $835 million, subject to customary closing adjustments. The sale will occur as three separate transactions. The transaction for Canadian Utilities' 50 per cent ownership interest in the 260 MW Cory Cogeneration Station closed in July 2019. The remaining two transactions, one for 10 partly- or fully-owned natural gas-fired and coal-fired electricity generation assets located in Alberta and British Columbia, and the other for Canadian Utilities' 50 per cent ownership in the 580 MW Brighton Beach Power joint venture, are expected to close in the second half of 2019.
- In June 2019, Canadian Utilities, along with its partner Quanta Services Inc., entered into definitive agreements for the sale of Alberta PowerLine Limited Partnership (APL) for total proceeds of approximately $300 million, and the assumption of approximately $1.4 billion of APL debt. Canadian Utilities will remain as operator of APL over its 35-year contract with the AESO. The sale is expected to close in the fourth quarter of 2019, subject to receipt of regulatory approvals and satisfaction of other customary closing conditions.

ADJUSTED EARNINGS



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2019 SECOND QUARTER FINANCIAL INFORMATION

INVESTOR FACT SHEET

MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

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ATCO LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2019

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of ATCO Ltd. (ATCO, our, we, us, or the Company) during the six months ended June 30, 2019.

This MD&A was prepared as of July 24, 2019, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2019. Additional information, including the Company's previous MD&As, Annual Information Form (2018 AIF), and audited consolidated financial statements for the year ended December 31, 2018, is available on SEDAR at www.sedar.com. Information contained in the 2018 MD&A is not discussed in this MD&A if it remains substantially unchanged.

The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family. The Company includes controlling positions in Canadian Utilities Limited (52.2 per cent ownership), ATCO Structures & Logistics Ltd. (100 per cent ownership), and ATCO Investments Ltd. (100 per cent ownership). The Company also has a non-controlling equity investment in Neltume Ports S.A. (40 per cent). Throughout this MD&A, the Company's earnings attributable to Class I and Class II Shares and adjusted earnings are presented after non-controlling interests.

Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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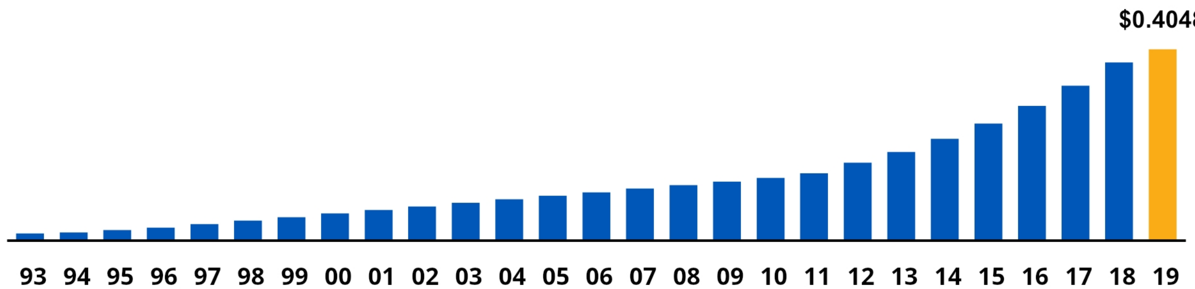
ATCO: WHAT SETS US APART

TRACK RECORD OF DIVIDEND GROWTH

We have increased our common share dividend every year for the past 26 years, a track record of which we are very proud. On July 11, 2019, we declared a third quarter dividend of 40.48 cents per share or $1.62 per share on an annualized basis. As a holding company, ATCO continues to grow its dividends consistent with the sustainable growth of its investments.

Quarterly Dividend Rate 1993 - 2019
(dollars per share)



DIVERSIFIED INFRASTRUCTURE HOLDINGS

ATCO is focused on investments that put us at the forefront of global trends. We strive to deliver growth within our holding company portfolio with a focus on select opportunities in the essential global services of: housing, logistics and transportation, agriculture, water, real estate, energy and energy infrastructure.

Over the past ten years, ATCO subsidiary Canadian Utilities has more than doubled its asset base by investing approximately $15 billion in regulated and long-term contracted energy infrastructure. This highly contracted and regulated earnings base provides the foundation for continued dividend growth.

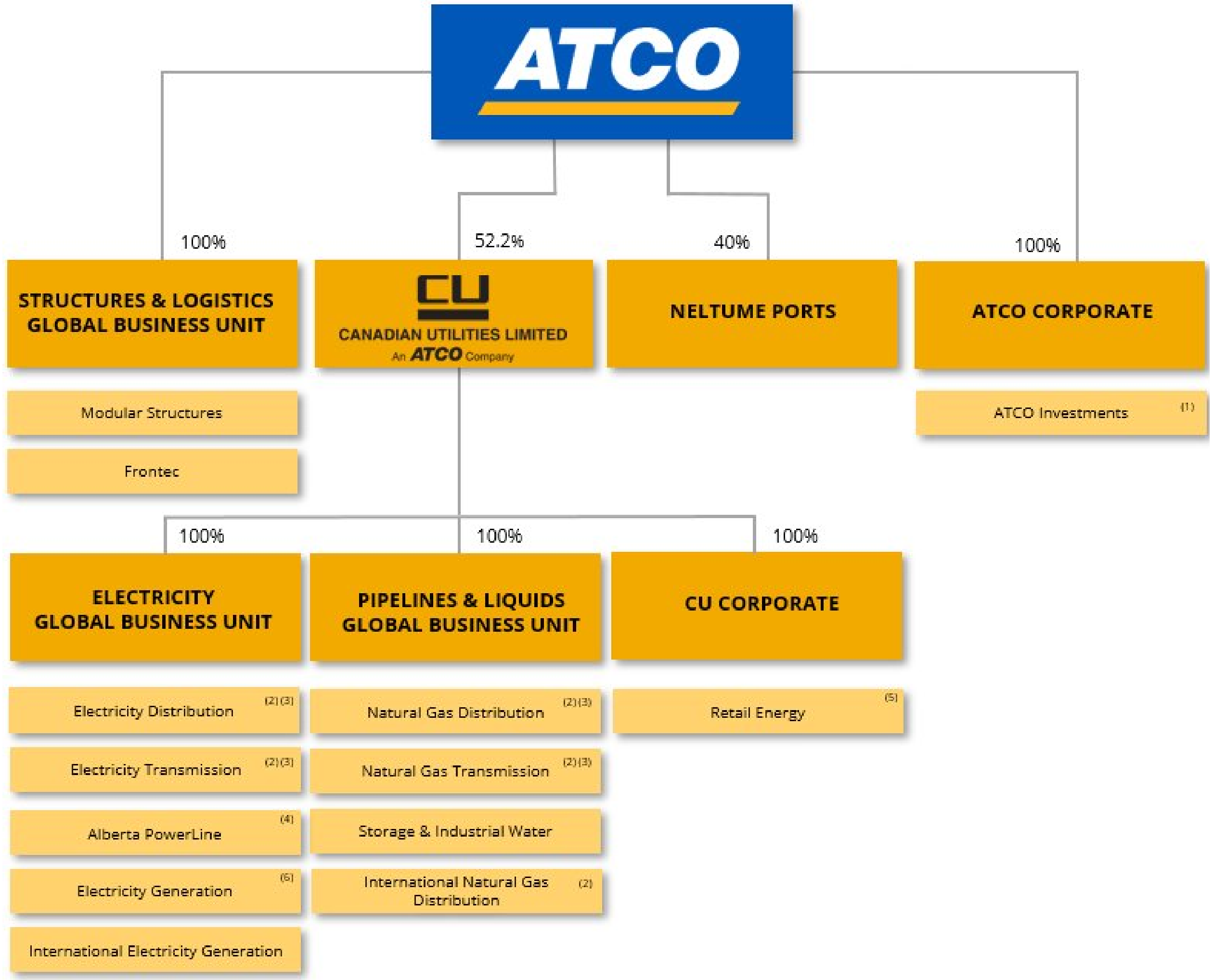
GLOBAL GROWTH PLANS

In 2018, ATCO expanded its presence in Latin America with an investment in Neltume Ports, a leading port operator in South America. Further investment in modular structures fleet expansions as well as Canadian Utilities' acquisition of a hydroelectric generation facility in Mexico were also a part of the 2018 Latin America Expansion. In the years ahead, we will continue to grow and expand our business with a focus on the select global markets of: Australia, Latin America, United States and Canada. In the period 2019 to 2021, ATCO subsidiary, Canadian Utilities expects to invest $3.6 billion in Regulated Utility and long-term contracted assets in Canada, Australia, and Mexico, which will continue to strengthen our high quality earnings base. Of the $3.6 billion planned spend, $3.5 billion will be on Regulated Utilities.

COMMITMENT TO FINANCIAL STRENGTH

Financial strength is fundamental to our current and future success. It ensures we have the financial capacity to fund our existing and future capital investment. We are committed to maintaining our strong, investment grade credit ratings, which allow us to access capital at attractive rates.

ORGANIZATIONAL STRUCTURE



(1) ATCO Investments includes commercial real estate investments held for sale, lease or development.

(2) Regulated businesses include Natural Gas Distribution, Natural Gas Transmission, International Natural Gas Distribution, Electricity Distribution, and Electricity Transmission.

(3) Canadian Utilities' 100 per cent owned subsidiary CU Inc. includes Natural Gas Distribution, Natural Gas Transmission, Electricity Distribution, and Electricity Transmission.

(4) Alberta PowerLine General Partner Ltd. is the general partner of Alberta PowerLine Limited Partnership (Alberta PowerLine or APL), a partnership between Canadian Utilities Limited (80 per cent) and Quanta Services, Inc. (20 per cent). In June 2019, Canadian Utilities, along with its partner Quanta Services Inc., entered into definitive agreements for the sale of Alberta Powerline Limited Partnership (APL) through a competitive process for total proceeds of approximately $300 million, and the assumption of approximately $1.4 billion of APL debt.

(5) Retail Energy, through ATCO Energy Ltd. (ATCOenergy), provides retail, commercial and industrial electricity and natural gas service in Alberta.

(6) In May 2019, Canadian Utilities entered into definitive agreements to sell its entire Canadian fossil fuel-based electricity generation portfolio for aggregate proceeds of approximately $835 million, subject to customary closing adjustments.

The unaudited interim consolidated financial statements include the accounts of ATCO Ltd., including a proportionate share of joint venture investments and its equity-accounted investment in associate company (Neltume Ports). Principal subsidiaries are Canadian Utilities Limited (Canadian Utilities), of which ATCO Ltd. owns 52.2 per cent (38.3 per cent of the Class A non-voting shares and 89.9 per cent of the Class B common shares), and ATCO Structures & Logistics Ltd., of which ATCO Ltd. owns 100 per cent of the common shares. ATCO Ltd. also owns 100 per cent of the common shares of ATCO Investments Ltd. (ATCO Investments) which includes commercial real estate investments held for sale, lease, or development.

The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

ATCO's website, www.ATCO.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on this website.

PERFORMANCE OVERVIEW

FINANCIAL METRICS

The following chart summarizes key financial metrics associated with our financial performance.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions, except per share data and outstanding shares)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Key Financial Metrics						
Revenues	**1,103**	1,103	–	**2,427**	2,603	(176)
Adjusted earnings [1]	**78**	61	17	**190**	160	30
Structures & Logistics	**7**	6	1	**10**	7	3
Neltume Ports	**4**	–	4	**8**	–	8
ATCO Corporate & Other	**–**	(2)	2	**–**	1	(1)
Canadian Utilities Limited						
Electricity	**55**	53	2	**116**	104	12
Pipelines & Liquids	**23**	14	9	**74**	67	7
Canadian Utilities Corporate & Other	**(11)**	(10)	(1)	**(18)**	(19)	1
Adjusted earnings ($ per share) [1]	**0.68**	0.53	0.15	**1.66**	1.40	0.26
Earnings (loss) attributable to Class I and Class II Shares	**158**	(12)	170	**270**	78	192
Earnings (loss) attributable to Class I and Class II Shares ($ per share)	**1.38**	(0.10)	1.48	**2.36**	0.68	1.68
Total assets	**23,472**	21,894	1,578	**23,472**	21,894	1,578
Cash dividends declared per Class I and Class II Share (cents per share)	**40.48**	37.66	2.82	**80.96**	75.32	5.64
Funds generated by operations [1]	**433**	317	116	**1,012**	858	154
Capital investment [1]	**284**	462	(178)	**627**	1,234	(607)
Other Financial Metrics						
Weighted average Class I and Class II Shares outstanding *(thousands):*						
Basic	**114,352**	114,415	(63)	**114,337**	114,384	(47)
Diluted	**114,836**	114,822	14	**114,740**	114,788	(48)

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section of this MD&A.

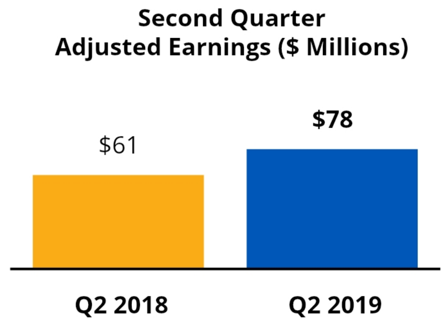
REVENUES

Revenues for the second quarter of 2019 were comparable to the same period in 2018. Lower revenues due to the completion of construction for the Alberta PowerLine Fort McMurray West-500kV project were offset by higher revenues in Structures and Logistics from the LNG Canada Project, the newly acquired ATCO Espaciomovil and North American camp maintenance and service contracts.

Revenues for the first half of 2019 were $2,427 million, $176 million lower than the same period in 2018. Lower revenues were mainly due to reduced construction activity on Alberta PowerLine, which was completed three months ahead of schedule and on budget.

ADJUSTED EARNINGS

Our adjusted earnings for the second quarter and first six months of 2019 were $78 million or $0.68 per share and $190 million or $1.66 per share, compared to $61 million or $0.53 per share and $160 million or $1.40 per share, for the same periods in 2018. Higher earnings were recorded in Structures & Logistics, Neltume Ports, and Canadian Utilities.



The primary drivers of higher adjusted earnings results were as follows:

- Structures & Logistics adjusted earnings for the second quarter of 2019 were $1 million higher than the same period in 2018. The increase was mainly due to incremental earnings from the LNG Canada Project, and higher rental activity.
- Neltume Ports adjusted earnings for the second quarter of 2019 were $4 million. On September 12, 2018, ATCO invested in a 40 per cent interest in Neltume Ports.
- ATCO Corporate & Other adjusted earnings for the second quarter of 2019 were $2 million higher than the same period in 2018, mainly due to the timing of certain operating expenses, partially offset by higher interest expense associated with the financing of the investment in Neltume Ports.
- Canadian Utilities adjusted earnings for the second quarter of 2019 were $10 million higher than the same period in 2018, mainly due to favourable electricity and natural gas transmission regulatory decisions, ongoing growth in the regulated rate base, cost efficiencies and lower income taxes. Lower income taxes are due to capital cost allowance acceleration measures enacted by the Government of Canada in April 2019 and lower corporate income tax rates enacted by the Government of Alberta in June 2019.

Additional detail on the financial performance of our Global Business Units is discussed in the Global Business Unit Performance section of this MD&A.

EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares were $158 million for the second quarter of 2019, or $170 million higher than the same period 2018. Earnings attributable to Class I and Class II Shares include significant impairments, timing adjustments related to rate-regulated activities, unrealized gains or losses on mark-to-market forward commodity contracts, one-time gains and losses, and items that are not in the normal course of business or a result of day-to-day operations. These items are not included in adjusted earnings.

Earnings attributable to Class I and Class II Shares in the second quarter of 2019 improved due to revaluation of the deferred income tax liability mainly in the Alberta Utilities. In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022. As a result of this change, ATCO decreased income taxes and increased earnings for the three and six months ended June 30, 2019 by $106 million, all of which relates to deferred income taxes for the Alberta Utilities and are recorded as timing adjustments related to rate-regulated activities.

In the second quarter of 2019, ATCO also recorded transaction costs of $5 million for Canadian Utilities' pending sales of the Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine Limited Partnership. These costs are related to one-time transactions and are therefore excluded from adjusted earnings.

More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Class I and Class II Shares section of this MD&A.

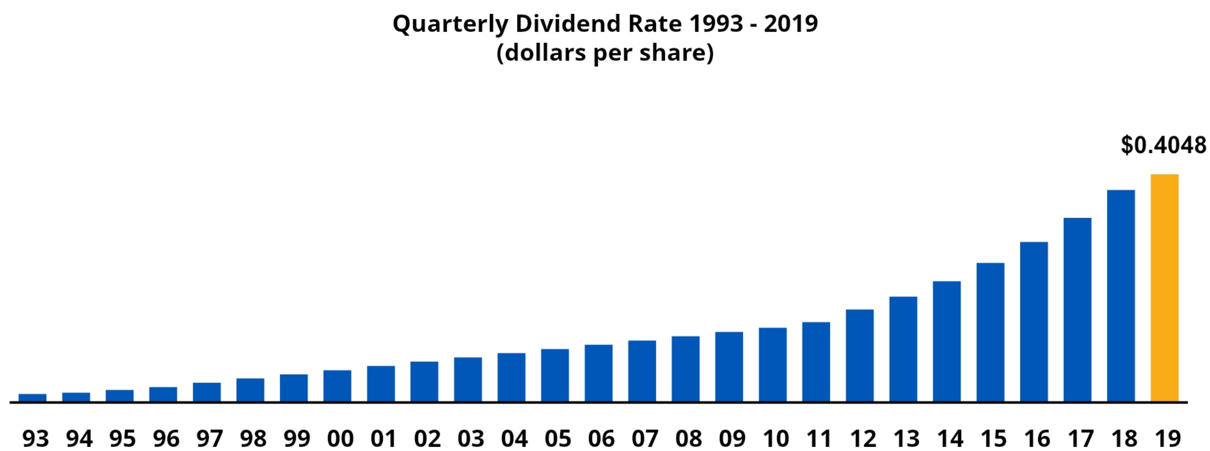
ASSETS

Total assets grew from $22 billion in the second quarter of 2018 to $23 billion in the second quarter of 2019. Asset growth was mainly due to the investment in Neltume Ports, and continued capital investment in both APL and in Canadian Utilities' regulated assets.

COMMON SHARE DIVIDENDS

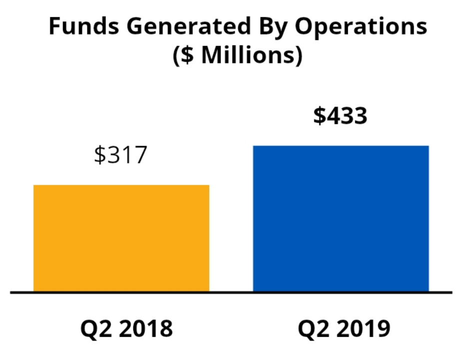
On July 11, 2019, the Board of Directors declared a third quarter dividend of 40.48 cents per share. Dividends paid to Class I and Class II Share owners totaled $93 million in the first half of 2019.

We have increased our common share dividend each year since 1993.



FUNDS GENERATED BY OPERATIONS

Funds generated by operations were $433 million for the second quarter of 2019, $116 million higher than the same period in 2018. The increase was mainly due to higher earnings, the 2018 impact of a refund of customer deferral accounts in electricity transmission and a refund of over collected transmission costs in natural gas distribution.

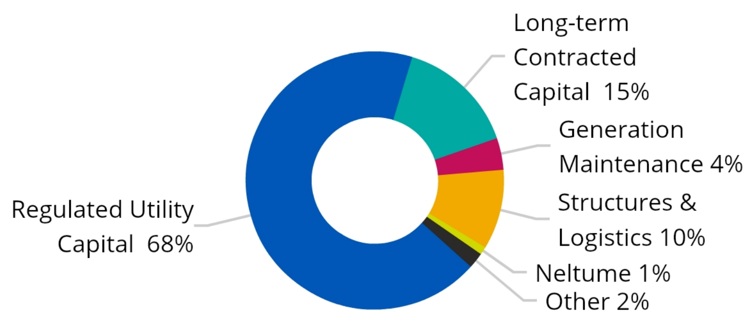


CAPITAL INVESTMENT

Total capital investment in the second quarter of 2019 was $284 million. Of this capital invested, $215 million was invested in Regulated Utilities. These investments earn a return under a regulated business model. The remaining $69 million invested in the second quarter of 2019 included continued global expansion of the modular structures space rental fleet and planned capital maintenance in the electricity generation fleet.

Total capital investment in the first half of 2019 was $627 million. Of this capital invested, $428 million was invested in Regulated Utilities, and $95 million was invested in long-term contracted assets including Alberta PowerLine. These investments either earn a return under a regulated business model or are under commercially secured long-term projects. The remaining $104 million invested in the first half of 2019 included global expansion of the modular structures space rental fleet, planned capital maintenance in the electricity generation fleet as well as an additional investment in Neltume Ports.

Capital Investment for the Six Months Ended June 30, 2019



GLOBAL BUSINESS UNIT PERFORMANCE

REVENUES

Structures & Logistics revenues of $204 million in the second quarter of 2019 and $342 million in the first half of 2019 were $68 million and $91 million higher than the same periods in 2018. Higher revenues were mainly due to incremental revenue from the LNG Canada Project, the newly acquired ATCO Espaciomovil, and North American camp maintenance and service contracts that are now in operation. Also contributing to higher revenue for the periods are higher trade sale activity in workforce housing, higher space rental activity and higher lodging occupancy at the BC Hydro Site C workforce housing camp, partially offset by lower used fleet sales.

ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Modular Structures	**6**	5	1	**8**	6	2
Frontec	**1**	1	–	**2**	1	1
Total Structures & Logistics Adjusted Earnings	**7**	6	1	**10**	7	3

Structures & Logistics recorded adjusted earnings of $7 million in the second quarter of 2019 and $10 million in the first half of 2019, $1 million and $3 million higher than the same periods in 2018. The increase was mainly due to incremental earnings from the LNG Canada Project, and higher rental activity.

Detailed information about the activities and financial results of the Structures & Logistics businesses are provided in the following sections.

MODULAR STRUCTURES

Modular structures manufactures, sells and leases transportable workforce and residential housing and space rental products. Space rentals sells and leases mobile office trailers in various sizes and floor plans to suit our customers' needs. Workforce housing delivers modular workforce housing worldwide, including short-term and permanent modular construction, pre-fabricated and relocatable modular buildings.

Modular structures recorded adjusted earnings of $6 million in the second quarter of 2019 and $8 million in the first half of 2019, $1 million and $2 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to continued work on the LNG Canada workforce accommodation contract, higher space rental earnings and trade sale activity in Canada and higher workforce housing rental earnings and trade sale activity in the United States. Higher earnings were partially offset by lower workforce housing fleet sales in Canada and Australia.

Rental Fleet Statistics

The following table compares Structures & Logistics' manufacturing hours and rental fleet for the second quarter and first half of 2019 and 2018.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	2018	Change	2019	2018	Change
North America						
Manufacturing hours *(thousands)*	**251**	109	130%	**428**	200	114%
Global Space Rentals						
Number of units	**15,416**	13,638	13%	**15,416**	13,638	13%
Average utilization *(%)*	**78**	75	3%	**77**	74	3%
Average rental rate *($ per month)*	**498**	492	1%	**555**	489	13%
Global Workforce Housing						
Number of units	**3,008**	3,276	(8%)	**3,008**	3,276	(8%)
Average utilization *(%)*	**47**	42	5%	**41**	40	1%
Average rental rate *($ per month)*	**1,865**	1,432	30%	**1,795**	1,385	30%

The increase in manufacturing hours in the second quarter and first half of 2019 were mainly due to increased LNG Canada manufacturing activity and expansion of the global space rental fleet.

The increase in the number of space rental units was mainly due to the fourth quarter 2018 acquisition of ATCO Espaciomovil in Mexico as well as the strategic expansion of the space rental fleet in the United States, central Canada and Australia. The increase in utilization was mainly driven by increased space rentals in the United States. The increase in the average rental rate was mainly due to strong activity in the construction sector, particularly in central Canada and the eastern seaboard of Australia.

The decrease in the number of workforce housing units was mainly due to used fleet sales of non-utilized units in Canada and Australia. The increase in utilization was mainly due to the fire relief project in Chico, California, partially offset by the ramp down of the LNG modular structures project in Lake Charles, Louisiana. The increase in the average rental rate was primarily due to improved rental rates in the United States relating to the fire relief project combined with a workforce housing project in Canada that came off rent at a lower than average rate.

MODULAR STRUCTURES RECENT DEVELOPMENTS

In the second half of 2019, modular structures business activity will continue to ramp up due to the execution of secured contract work such as LNG Canada, ongoing rental earnings from Chico, California, PMC contracts in the US and Canada, and orders with major mining companies in Western Australia.

Canada

LNG Canada Workforce Accommodation Contract

Modular structures has successfully commenced both manufacturing and site construction work for the LNG Canada workforce accommodation village. Manufacturing commenced in the first quarter of 2019 and is planned to continue through 2020. The first modules are on schedule to be installed in July 2019. The facility is being built to house workers involved in the construction of LNG Canada's natural gas liquefaction and export facility. The project is one of the largest accommodation facilities ever built in Canada.

Completed apartment for supportive housing program in Vernon, BC.

BC Housing Supportive Housing Program Contracts

Modular structures has secured multiple projects for the Government of British Columbia's (BC) supportive housing program in response to the growing issue of homelessness in communities throughout BC. The first project, based in Vernon, BC, is a $9 million, 52 unit apartment complex that was successfully handed over in June 2019. A $9 million, 30 unit apartment building is under construction in Powell River, BC. and is expected to be complete by the end of 2019. An additional $9 million contract for a 30 unit apartment building has been manufactured and will be installed in New Westminster, BC in the second half of 2019 with an expected handover date in early 2020.

United States

Modular structures was awarded a $70 million contract for the installation and rental of a 1,500 person camp for fire disaster relief in Chico, California. The project will continue to see the ongoing value of rental earnings from the initial date of occupation in April of 2019 through to early 2020.

Modular structures was awarded a $7 million contract to supply modular product for a Marriott hotel to be situated near San Francisco, California with an expected completion in July 2019. A second $7 million contract awarded to supply modular product for a Marriott hotel in Oakland, California is expected to be complete in November 2019.

1,500 person camp for fire disaster relief in Chico, California.

Australia

Modular structures is currently working on the design, manufacture and installation of a 400 room, two story accommodation village in Karratha, Western Australia. The total contract value is $22 million with manufacturing commencing in August 2019 with installation expected to be complete in April 2020.

Manufacturing of a 600-person rental camp in Western Australia commenced in 2018, and the first stage handover of 300 beds occurred in June 2019. The total contract value is $27 million with an expected completion of all 600 beds in August 2019.

FRONTEC

Frontec provides lodging, catering, waste management, and maintenance services to meet the demands of major, remote resource projects. Frontec also delivers facilities operations and maintenance services, including end-to-end supply chain management, to our clients in the resources, defence and telecommunications sectors as well as emergency management and disaster response services globally.

Frontec recorded adjusted earnings of $1 million in the second quarter of 2019, which is comparable to the same period in 2018.

Frontec recorded adjusted earnings of $2 million in the first half of 2019, $1 million higher than the same period in 2018. Higher adjusted earnings were mainly due to higher lodging occupancy at the BC Hydro Site C workforce housing camp and incremental earnings from North American camp maintenance and service contracts which includes the Tuscan Ridge contract in Chico, California, the Silvertip mining contract in northern BC, the Coastal GasLink Pipeline support services project in BC, and the Elkford Lodge TECK Coal contract in BC that were previously announced and are now in operation.

FRONTEC RECENT DEVELOPMENTS

Canada

Frontec received a one-year extension on a repairs and maintenance contract with a major oil sands mining project in Canada. The project is valued at more than $3 million. The one-year extension started in May 2019 and will continue until April 2020.

International

Frontec was awarded a $2 million, one-year contract extension by NATO Support and Procurement Agency (NATO Airlift Management Program) to provide facilities maintenance, cleaning, landscaping, snow and ice clearing, and pest control at PAPA Air Base in Hungary. The one-year extension will continue until May 2020.

Neltume Ports is a port operator and developer with a diversified portfolio of 16 multipurpose, bulk cargo and container port facilities and three port operations services located in Chile, Uruguay, Argentina, and Brazil.

ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Neltume Ports Adjusted Earnings	**4**	–	4	**8**	–	8

Neltume Ports recorded adjusted earnings of $4 million and $8 million in the second quarter and first half of 2019 driven by continued strong movement of copper cargo volumes in Chile. On September 12, 2018, ATCO invested in a 40 per cent interest of Neltume Ports, a leading port operator and developer in South America.

ATCO CORPORATE & OTHER

ATCO Corporate & Other contains ATCO Investments which is a commercial real estate business that holds investments for sale, lease or development. ATCO Corporate & Other also includes the global corporate head office in Calgary, Canada, ATCO licensing fees received, and financing expenses associated with the Neltume Ports investment.

ATCO Corporate & Other adjusted earnings in the second quarter of 2019 were $2 million higher than the same period in 2018. Higher earnings were mainly due to the timing of certain operating expenses, partially offset by higher interest expense associated with the financing of the investment in Neltume Ports.

ATCO Corporate & Other adjusted earnings in first half of 2019 were $1 million lower than the same period in 2018. Lower earnings were mainly due to higher interest expense associated with the financing of the investment in Neltume Ports.

Canadian Utilities is a diversified global energy infrastructure corporation delivering service excellence and innovative business solutions in Electricity (electricity generation, transmission, and distribution); Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); and Retail Energy (electricity and natural gas retail sales).

ELECTRICITY

ELECTRICITY REVENUES

Electricity revenues of $516 million in the second quarter of 2019, and $1,206 million in the first half of 2019 were $118 million and $327 million lower than the same periods in 2018, mainly due to reduced construction activity for APL, partially offset by the settlement of the electricity transmission 2013-2014 deferral application.

ELECTRICITY ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Regulated Electricity						
Electricity Distribution	**16**	15	1	**36**	32	4
Electricity Transmission	**31**	26	5	**54**	47	7
Total Regulated Electricity Adjusted Earnings	**47**	41	6	**90**	79	11
Non-regulated Electricity						
Independent Power Plants	**(2)**	1	(3)	**5**	(1)	6
Thermal PPA Plants	**4**	7	(3)	**8**	14	(6)
International Electricity Generation	**–**	1	(1)	**3**	4	(1)
Alberta PowerLine	**6**	3	3	**10**	8	2
Total Non-regulated Electricity Adjusted Earnings	**8**	12	(4)	**26**	25	1
Total Electricity Adjusted Earnings	**55**	53	2	**116**	104	12

Electricity earnings were $55 million in the second quarter of 2019, $2 million higher compared to the same period in 2018. Higher earnings were mainly due to the impact of the electricity transmission 2018-2019 general tariff application (GTA) decision, continued growth in the regulated rate base, cost efficiencies, and lower income taxes, partially offset by lower availability and higher maintenance costs due to planned outages in the electricity generation business.

Electricity earnings were $116 million in the first half of 2019, $12 million higher than the same period in 2018. Higher earnings were mainly due to the impact of the 2018-2019 GTA decision, continued growth in the regulated rate base, higher market prices in Independent Power Plants, cost efficiencies, and lower income taxes.

Detailed information about the activities and financial results of Electricity's businesses is provided in the following sections.

REGULATED ELECTRICITY

Regulated Electricity provides regulated electricity distribution, transmission and distributed generation mainly in northern and central east Alberta, the Yukon and the Northwest Territories.

Electricity Distribution

Electricity distribution recorded adjusted earnings of $16 million and $36 million in the second quarter and first half of 2019, $1 million and $4 million higher than the same periods in 2018. Higher earnings were mainly due to continued growth in the rate base, cost efficiencies and lower income taxes.

Electricity Transmission

Electricity transmission recorded adjusted earnings of $31 million and $54 million in the second quarter and first half of 2019, $5 million and $7 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the impact of the 2018-2019 GTA decision, which increased second quarter 2019 adjusted earnings by $9 million of which $2 million relates to the second quarter 2019, $2 million relates to the first quarter 2019, and $5 million relates to 2018. Higher earnings were partially offset by the timing of certain operating expenses and revenues.

NON-REGULATED ELECTRICITY

Non-regulated electricity activities supply electricity from natural gas, coal-fired and hydroelectric generating plants in western Canada, Ontario, Australia and Mexico and non-regulated electricity transmission in Alberta.

Generating Plant Availability

Electricity generating availability for the second quarter and first half of 2019 and 2018 is shown in the table below. Generating plant capacity fluctuates with the timing and duration of outages.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Independent Power Plants	**87%**	91%	(4%)	**92%**	92%	–
Thermal PPA Plants	**98%**	95%	3%	**97%**	94%	3%
International Electricity Generation	**90%**	97%	(7%)	**95%**	98%	(3%)

Lower availability in our Independent Power Plants in the second quarter of 2019 was mainly due to higher planned outages compared to the second quarter of 2018. In the second quarter of 2019, work was completed at several power plants.

Higher availability in our Thermal PPA Plants in the second quarter and first half of 2019 was primarily due to fewer planned outages. In the first quarter of 2018, a planned minor outage was completed at the Battle River unit 5 plant. Effective January 1, 2019, Battle River unit 5 is categorized under Independent Power Plants.

Availability in our International Electricity Generation Plants in the second quarter and first half of 2019 was lower than the same periods in 2018 mainly due to a planned maintenance outage at the Osborne power plant in the second quarter of 2019.

Alberta Power Market Summary

Average Alberta Power Pool and natural gas prices and the resulting spark spreads for the second quarter and first half of 2019 and 2018 are shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Average Alberta Power Pool electricity price *($/MWh)*	**56.37**	56.01	0.36	**63.55**	45.52	18.03
Average natural gas price *($/GJ)*	**0.98**	1.14	(0.16)	**1.73**	1.55	0.18
Average market spark spread ($/*MWh*)	**49.03**	47.45	1.58	**50.56**	33.90	16.66

The average Alberta Power Pool electricity price for the second quarter of 2019 was comparable to the same period in 2018.

The average Alberta Power Pool electricity price for the first half of 2019 was $18.03 per MWh higher compared to the same period in 2018. The increase was due to strong pricing in February and early March as a result of near record low temperatures leading to greater demand, coal unit outages, record low wind capacity factors, and export prices impacting tie line flows.

Realized Forwards Sales Program

	Three Months Ended June 30			Six Months Ended June 30		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Average volumes settled *(MW)*	**318**	281	37	**370**	255	115
Average realized spark spread *($/MWh)*	**26.44**	17.31	9.13	**27.78**	16.96	10.82

In the second quarter of 2019, Independent Power Plants sold forward 318 MW of power that settled at an average realized spark spread of $26.44 per MWh compared to 281 MW sold forward that settled at an average of $17.31 per MWh in the same period of 2018. Forward sales in 2019 resulted in a realized loss position comparable to the same period in 2018 due to the realized spark spread being lower than the market spark spread of $49.03 per MWh, shown above in the Alberta Power Market Summary.

In the first half of 2019, Independent Power Plants sold forward 370 MW of power that settled at an average realized spark spread of $27.78 per MWh compared to 255 MW sold forward that settled at an average of $16.96 per MWh during the first half of 2018. Forward sales in 2019 resulted in a higher realized loss position compared to the same period in 2018 due to the realized spark spread being lower than the market spark spread of $50.56 per MWh, shown above in the Alberta Power Market Summary.

Independent Power Plants

Independent Power Plants recorded an adjusted loss of $2 million in the second quarter of 2019, compared to $1 million of earnings in the same period in 2018. Lower earnings generated by Independent Power Plants were mainly due to lower availability and higher maintenance costs due to planned outages in the second quarter of 2019. While Battle River unit 5 was categorized under Independent Power Plants in 2019, the market in the second quarter of 2019 did not provide opportunities to achieve earnings similar to those achieved through the Thermal PPA in the same period in 2018.

Independent Power Plants recorded adjusted earnings of $5 million in the first half of 2019, $6 million higher compared to the same period in 2018. Higher earnings generated by Independent Power Plants were mainly due to increased market prices and lower general and administrative costs, partially offset by higher maintenance costs and realized losses on forward sales.

Thermal PPA Plants

The electricity generated by the Sheerness units, and by Battle River unit 5 until September 30, 2018, is sold through PPAs. Under the PPAs, generating capacity for each generating unit must be made available to the PPA purchaser of that unit. These arrangements entitle us to recover forecast fixed and variable costs from the PPA purchaser. An operations and maintenance margin is included on these fixed and variable costs and is recognized over the term of the PPAs. Under the terms of the PPAs, counterparties are also subject to an incentive related to the generating unit availability. Incentives are payable by the PPA counterparties for availability in excess of predetermined targets.

Thermal Power Plants recorded adjusted earnings of $4 million in the second quarter of 2019 and $8 million in the first half of 2019, $3 million and $6 million lower than the same periods in 2018. Lower earnings were mainly due to Battle River unit 5 earnings being categorized under Independent Power Plants effective January 1, 2019.

International Electricity Generation

International electricity generation activities supply electricity from two natural gas-fired electricity generation plants in Australia: the Osborne plant in South Australia and the Karratha plant in Western Australia. Electricity is also supplied from a distributed electricity generation station near San Luis Potosí, Mexico and a hydroelectric generation station near Veracruz, Mexico.

International electricity generation recorded adjusted earnings of nil in the second quarter of 2019 and $3 million in the first half of 2019, $1 million lower than the same periods in 2018. Lower earnings were mainly due to the impact of the new Osborne Power Purchase Agreement which came into effect in December 2018.

Alberta PowerLine

Alberta PowerLine is a partnership between Canadian Utilities (80 per cent) and Quanta Services, Inc. (20 per cent), with a 35-year contract from the Alberta Electric System Operator (AESO) to design, build, own, and operate the 500 km, Fort McMurray West 500-kV Transmission project, running from Wabamun, near Edmonton to Fort McMurray, Alberta.

APL's adjusted earnings were $6 million and $10 million in the second quarter and first half of 2019, $3 million and $2 million higher compared to the same periods in 2018. Higher earnings were mainly due to lower income taxes from lower Alberta corporate income tax rates, and higher service concession arrangement interest income, partially offset by lower earnings from the completion of construction activity in the first quarter of 2019.

ELECTRICITY RECENT DEVELOPMENTS

Alberta PowerLine

In June 2019, Canadian Utilities, along with its partner Quanta Services Inc., entered into definitive agreements for the sale of Alberta PowerLine Limited Partnership (APL) through a competitive process for total proceeds of approximately $300 million, and the assumption of approximately $1.4 billion of APL debt. The purchaser is a consortium including Greystone Managed Investments doing business as TD Greystone Asset Management, as manager for and on behalf of the Greystone Infrastructure Fund (Global Master) L.P., and IST3 Investment Foundation acting in respect and on behalf of its investment group IST3 Infrastruktur Global. As part of these agreements, Canadian Utilities is offering an opportunity for Indigenous communities along the transmission line route to obtain up to a 40 per cent equity interest in APL. The final ownership mix will be determined upon close of the purchase option for Indigenous communities. Canadian Utilities will remain as operator of APL over its 35-year contract with the AESO. The sale is expected to close in the fourth quarter of 2019, subject to receipt of regulatory approvals and satisfaction of other customary closing conditions.

Sale of Electricity Generation Business

In May 2019, Canadian Utilities entered into definitive agreements to sell its entire Canadian fossil fuel-based electricity generation portfolio for aggregate proceeds of approximately $835 million, subject to customary closing adjustments. An agreement with Heartland Generation Ltd., an affiliate of Energy Capital Partners, includes 10 partly- or fully-owned natural gas-fired and coal-fired electricity generation assets located in Alberta and BC. Subsequent to the agreement with Heartland Generation Ltd., Ontario Power Generation Inc. exercised a right of first refusal to acquire Canadian Utilities' 50 per cent ownership in the 580 MW Brighton Beach Power joint venture. These transactions are expected to close in the second half of 2019. In a separate transaction, Canadian Utilities entered into an agreement to sell its 50 per cent ownership interest in the 260 MW Cory Cogeneration Station to SaskPower International. The Cory Cogeneration Station sale transaction closed in July 2019.

PIPELINES & LIQUIDS

PIPELINES & LIQUIDS REVENUES

Pipelines & Liquids revenues of $355 million in the second quarter of 2019, and $832 million in the first half of 2019, were $40 million and $32 million higher than the same periods in 2018. Higher revenues were mainly due to higher flow-through revenues in natural gas distribution for third party franchise and transmission fees, and growth in the regulated rate base.

PIPELINES & LIQUIDS ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Regulated Pipelines & Liquids						
Natural Gas Distribution	**1**	(3)	4	**39**	33	6
Natural Gas Transmission	**12**	10	2	**20**	19	1
International Natural Gas Distribution	**8**	8	–	**12**	15	(3)
Total Regulated Pipelines & Liquids Adjusted Earnings	**21**	15	6	**71**	67	4
Non-regulated Pipelines & Liquids						
Storage & Industrial Water	**2**	(1)	3	**3**	–	3
Total Pipelines & Liquids Adjusted Earnings	**23**	14	9	**74**	67	7

Pipelines & Liquids recorded adjusted earnings of $23 million in the second quarter of 2019 and $74 million in the the first half of 2019, $9 million and $7 million higher than the same periods in 2018. Higher earnings were mainly due to ongoing growth in the regulated rate base and the impact of the natural gas transmission 2019-2020 general rate application (GRA) decision, earnings growth in the hydrocarbon storage business, cost efficiencies, and lower income taxes.

Detailed information about the activities and financial results of Pipelines & Liquids' businesses is provided in the following sections.

REGULATED PIPELINES & LIQUIDS

Natural Gas Distribution

Natural gas distribution services municipal, residential, business and industrial customers throughout Alberta and in the Lloydminster area of Saskatchewan.

Natural gas distribution recorded adjusted earnings of $1 million in the second quarter of 2019 and $39 million in the first half of 2019, $4 million and $6 million higher than the same periods in 2018, mainly due to cost efficiencies, growth in the rate base, and lower income taxes.

Natural Gas Transmission

Natural gas transmission receives natural gas on its pipeline system from various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province of Alberta or to other pipeline systems, primarily for export out of the province.

Natural gas transmission recorded adjusted earnings of $12 million in the second quarter of 2019 and $20 million in the first half of 2019, $2 million and $1 million higher than the same periods in 2018. Higher adjusted earnings were mainly due to the receipt of an AUC decision on applied-for rates in the 2019-2020 GRA, which increased second quarter adjusted earnings by approximately $2 million, of which $1 million is related to the first quarter of 2019. Higher earnings were also positively impacted by continued growth in the rate base and lower income taxes.

International Natural Gas Distribution

International natural gas distribution is a regulated provider of natural gas distribution services in Western Australia, serving metropolitan Perth and surrounding regions.

In the second quarter of 2019, international gas distribution adjusted earnings were comparable to the same period in 2018.

The international natural gas distribution business recorded adjusted earnings of $12 million in the first half of 2019, $3 million lower than the same period in 2018, mainly due to significant CPI adjustments in the first quarter offset by interest savings and growth in the rate base. Earnings adjustments are made for the inflation rate published by the Australian Bureau of Statistics. The published inflation rate for the first quarter of 2019, when applied to the rate of return calculations, produced a reduction to the revenues and earnings in the first quarter.

NON-REGULATED PIPELINES & LIQUIDS

Storage & Industrial Water

Storage & industrial water provides industrial water services and non-regulated natural gas and hydrocarbon storage, and transmission activities in Alberta.

The storage & industrial water business recorded adjusted earnings of $2 million in the second quarter of 2019 and $3 million in the first half of 2019, $3 million higher than the same periods in 2018. Higher earnings were mainly due to incremental earnings from two additional hydrocarbon storage caverns that became operational in the second quarter of 2018 and lower income taxes from lower Alberta corporate income tax rates.

CANADIAN UTILITIES CORPORATE & OTHER

Canadian Utilities' Corporate & Other segment includes Retail Energy through ATCOenergy, launched in 2016 to provide retail electricity and natural gas services in Alberta. Corporate & Other also includes the global corporate head office in Calgary, Canada, the Australia corporate head office in Perth, Australia and the Mexico corporate head office in Mexico City, Mexico. Canadian Utilities Corporate and Other also includes CU Inc. and Canadian Utilities preferred share dividend expenses.

Including intersegment eliminations, Canadian Utilities Corporate & Other adjusted earnings in the second quarter of 2019 were $1 million lower compared to the same period in 2018 mainly due to a reduction in value of deferred tax assets in ATCOenergy related to a decrease in Alberta corporate income tax rates.

Including intersegment eliminations, Canadian Utilities Corporate & Other adjusted earnings in the first half of 2019 were $1 million higher compared to the same period in 2018 mainly due to the timing of certain operating costs.

REGULATORY DEVELOPMENTS

ATCO ELECTRIC HANNA REGION TRANSMISSION DEVELOPMENT DEFERRAL APPLICATION

In February 2017, electricity transmission filed an application seeking approval of approximately $688 million of capital additions related to the Hanna Regional Transmission Development program incurred between 2012 and 2015. A decision from the AUC was received in June 2019 approving the vast majority of capital additions as prudently incurred. The adjustments directed by the AUC in the decision had an immaterial impact on earnings.

ATCO PIPELINES 2019-2020 GENERAL RATE APPLICATION (GRA)

In July 2018, natural gas transmission filed a GRA for 2019 and 2020. The decision was received in June 2019 approving the majority of requested capital expenditures and operating costs requested as filed. The adjustments directed by the AUC in the decision had a $2 million positive impact on second quarter 2019 adjusted earnings. The revenue associated with the Pembina Keephills Transmission Pipeline project will remain a placeholder pending its separate facilities decision.

ATCO ELECTRIC 2018-2019 GENERAL TARIFF APPLICATION (GTA)

In June 2017, electricity transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of requested capital expenditures and operating costs as filed. The impact of this decision is an increase to second quarter 2019 adjusted earnings of $9 million.

INFORMATION TECHNOLOGY (IT) COMMON MATTERS

In August 2014, Canadian Utilities sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $74 million which was recorded in earnings attributable to Class I and Class II shares. In 2014, ATCO did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In 2015, the AUC commenced an Information Technology Common Matters (IT Common Matters) proceeding to review the recovery of information technology costs by the Alberta Utilities from January 1, 2015 going forward. In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding, and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. For the natural gas and electricity distribution utilities, the AUC's direction impacts the 2018 going-in rates and treatment of capital costs. For the natural gas and electricity transmission utilities, the AUC's direction impacts the revenue requirement dating back to 2015. The Alberta Utilities presented a considerable amount of evidence, including independent expert benchmarking and price review studies, to show that the Wipro MSA rates were at fair market value (FMV). As such, there was no cross subsidization between the sale price of Canadian Utilities' IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC determined that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

As a result of the AUC's IT Common Matters decision, an $8 million reduction to the previously recorded 2014 after-tax gain on sale of $74 million has been recorded in the second quarter of 2019. Going forward, the IT Common Matters decision is expected to further reduce the previously recorded gain. Consistent with the treatment in 2014, the $8 million reduction booked in the second quarter of 2019, along with future impacts associated with this decision, will not be included in adjusted earnings.

In July 2019, the Alberta Utilities filed a leave to appeal application with the Alberta Court of Appeal in relation to the AUC Decision on the IT Common Matters proceeding.

ATCO GAS AUSTRALIA ACCESS ARRANGEMENT

International natural gas distribution received the draft decision related to its Access Arrangement 5 (AA5) application from the Economic Regulation Authority (ERA) on April 18, 2019. The ERA also published its final rate of return guidelines which outline the parameters for the weighted average cost of capital (WACC) applicable to AA5. The published guidelines indicate a lower WACC for AA5 with lower earnings expected over the five-year period commencing in 2020. Based on the market risk free rate at June 30, 2019, the ROE component of WACC would be about 200 basis points lower in 2020 compared to the 2019 ROE using the current WACC applicable to Access Arrangement 4. The AA5 WACC (including the ROE) will be completed using a 20-business day period of observation to determine the risk free rate portion of the WACC calculation prior to the final decision.

The final decision from the ERA on AA5 is expected in October 2019 and will include decisions on the main components that influence earnings including: the WACC, the five-year capital expenditure program, the five-year operating cost forecast, the demand forecast of throughput on the natural gas distribution network in Western Australia, and an evaluation of the capital expenditure program completed during the AA4 period to confirm the capital expenditures met the regulatory criteria. A further reduction to achieved ROE is expected to arise from the rebasing of operating costs and the forecast of demand and throughput.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

Our 2018 Sustainability Report, published in June 2019, focuses on material topics including:

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous relations.

The Sustainability Report is based upon the internationally recognized Global Reporting Initiative (GRI) Standards. Our reporting is also guided by frameworks such as the Sustainability Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures' recommendations.

The 2018 Sustainability Report, Sustainability Framework Reference Document, and other disclosures are available on our website, at www.ATCO.com.

CLIMATE CHANGE AND ENERGY TRANSITION

To contribute to a lower carbon future, we continue to pursue initiatives looking at integrating lower intensity fuels, such as natural gas, hydrogen, renewables, and other clean energy solutions.

In 2018, Canadian Utilities installed three electric vehicle (EV) charging stations between Calgary and Edmonton, Alberta providing end-users an opportunity to replace liquid fuel with a low-carbon emitting energy. In 2019, Canadian Utilities plans to significantly expand its number of EV direct current, fast charging stations in Alberta. The fourth EV station was energized in Canmore in June, with 19 more EV charging stations planned for installation throughout 2019 and 2020.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the second quarter and first half of 2019 and 2018 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Operating costs	**677**	645	32	**1,318**	1,262	56
Service concession arrangement costs	**8**	148	(140)	**103**	516	(413)
Earnings from investment in associate company	**4**	–	4	**8**	–	8
Earnings from investment in joint ventures	**5**	6	(1)	**13**	14	(1)
Depreciation and amortization	**167**	198	(31)	**334**	358	(24)
Net finance costs	**124**	116	8	**247**	230	17
Income taxes	**(175)**	5	(180)	**(91)**	69	(160)

OPERATING COSTS

Operating costs, which are total costs and expenses less service concession arrangement costs and depreciation and amortization, increased by $32 million in the second quarter of 2019 when compared to the same period in 2018. Higher operating costs were mainly due to higher materials costs in modular structures from increased activity on the LNG Canada project and unrealized losses on mark-to-market forward commodity contracts in Independent Power Plants, partially offset by lower salaries and wages.

In the first six months of 2019, operating costs increased by $56 million when compared to the same period in 2018. Higher operating costs were mainly due to higher materials costs in modular structures from increased activity on the LNG Canada project, higher flow-through natural gas fuel and power costs from increased activity in Independent Power Plants and ATCOenergy, partially offset by lower salaries and wages.

SERVICE CONCESSION ARRANGEMENT COSTS

Service concession arrangement costs are recorded for third party construction and operation activities for the Fort McMurray West-500kV Project. Service concession arrangement costs in the second quarter and first half of 2019 were $140 million and $413 million lower compared to the same periods in 2018, mainly due to the completion of APL construction activities in March 2019. The project was energized on March 28, 2019. With the commencement of operations in the second quarter of 2019, costs incurred in this period primarily relate to operating and maintenance activities.

EARNINGS FROM INVESTMENT IN ASSOCIATE COMPANY

Earnings from investment in associate company is comprised of our 40 per cent ownership interest in Neltume Ports, a leading port operator and developer in South America with operations in 16 port facilities and three port operation services businesses located in Chile, Uruguay, Argentina, and Brazil. Earnings from investment in associate company was $4 million in the second quarter and $8 million in the first half of 2019.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures is mainly comprised of ownership positions in several electricity generation plants, the Strathcona Storage Limited Partnership which operates hydrocarbon storage facilities near Fort Saskatchewan, Alberta, ATCO-Sabinco S.A which operates a Structures & Logistics business in Chile, and certain lodge assets in Structures & Logistics. Earnings in the second quarter and first half of 2019 were $1 million lower than the same periods in 2018 due to lower trade sale activity for ATCO-Sabinco S.A.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense decreased by $31 million and $24 million in the second quarter and first half of 2019 when compared to the same periods in 2018, mainly due to higher costs in the second quarter of 2018 related to decisions to discontinue certain projects that no longer represented long-term strategic value to the Company, partially offset by higher depreciation due to continued growth in the regulated rate base.

NET FINANCE COSTS

Net finance costs increased by $8 million and $17 million in the second quarter and first half of 2019 when compared to the same periods in 2018, mainly due to interest expense associated with the Neltume Ports investment, lower interest income on APL cash balances and interest expense associated with the incremental debt issued to fund the ongoing capital investment program in the Regulated Utilities.

INCOME TAXES

Income taxes decreased by $180 million in the second quarter and $160 million in the first half of 2019 when compared to the same periods in 2018 mainly due to lower corporate income tax rates enacted by the Government of Alberta in June 2019, partially offset by higher earnings before income taxes. In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent over four years, commencing with a one per cent decrease on July 1, 2019, followed by one per cent reductions on January 1 of each of the next three years.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Regulated Utility and long-term contracted operations. Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations and the debt and preferred share capital markets.

We consider it prudent to maintain enough liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

CREDIT RATINGS

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

On July 17, 2019, Dominion Bond Rating Service affirmed its 'A (high)' long-term corporate credit rating and stable outlook on ATCO subsidiary CU Inc.

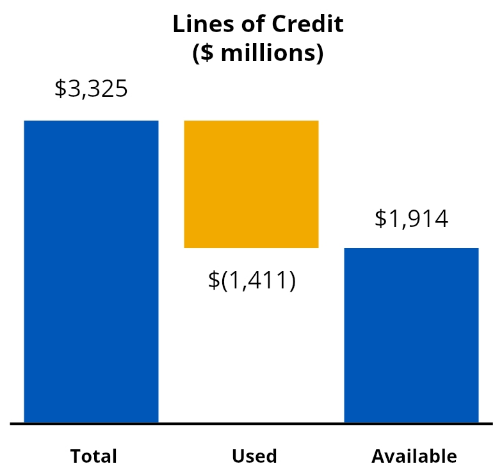
LINES OF CREDIT

At June 30, 2019, ATCO and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**2,736**	1,133	1,603
Short-term committed	**18**	15	3
Uncommitted	**571**	263	308
Total	**3,325**	1,411	1,914

Of the $3,325 million in total credit lines, $571 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,754 million in credit lines was committed, with maturities between 2020 and 2023, and may be extended at the option of the lenders.

Of the $1,411 million credit line usage, $365 million was related to ATCO Gas Australia Pty Ltd. and $550 million was related to issuances of commercial paper that are back-stopped by the corporate credit facilities. The majority of the remaining usage was associated with the issuance of letters of credit. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia Pty Ltd.'s term debt financing needs.



CONSOLIDATED CASH FLOW

At June 30, 2019, the Company's cash position was $681 million, a decrease of $10 million compared to December 31, 2018. The decrease was mainly due to timing of working capital, higher dividends paid, and interest paid on incremental debt associated with the Neltume Ports investment, partially offset by increased earnings.

Funds Generated by Operations

Funds generated by operations were $433 million in the second quarter of 2019, and $1,012 million in the first half of 2019, $116 million and $154 million higher than the same periods in 2018. The increase was mainly due to higher earnings, the 2018 impact of a refund of customer deferral accounts in electricity transmission and a refund of over collected transmission costs in natural gas distribution.

Cash Used for Capital Investment

Cash used for capital investment was $284 million in the second quarter of 2019, $178 million lower than the same period in 2018. Lower capital spending was mainly due to lower planned capital investment in Alberta PowerLine, natural gas distribution, and electricity distribution, partially offset by higher capital investment in Structures & Logistics for continued global expansion of the modular structures space rental fleet and planned capital maintenance in electricity generation.

Cash used for capital investment was $627 million in the first half of 2019, $607 million lower than the same period in 2018. Lower capital spending was mainly due to lower planned capital investment in Alberta PowerLine, natural gas distribution, and electricity distribution. Partially offsetting these lower capital investments was higher capital investment in Structures & Logistics for continued global expansion of the modular structures space rental fleet in the first half of 2019 and planned capital maintenance for electricity generation in the second quarter of 2019. Electricity generation capital investment in the first half of 2018 included the $112 million acquisition of the Mexico hydroelectric facility.

Capital investment in the second quarter and first half of 2019 and 2018 is shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Electricity						
Electricity Distribution	**43**	60	(17)	**88**	106	(18)
Electricity Transmission	**44**	51	(7)	**107**	120	(13)
Electricity Generation	**21**	16	5	**25**	132	(107)
Alberta PowerLine	**–**	148	(148)	**95**	516	(421)
Total Electricity	**108**	275	(167)	**315**	874	(559)
Pipelines & Liquids						
Natural Gas Distribution	**60**	80	(20)	**104**	135	(31)
Natural Gas Transmission	**49**	47	2	**94**	111	(17)
International Natural Gas Distribution	**19**	29	(10)	**35**	45	(10)
International Natural Gas Transmission and Storage & Industrial Water	**4**	8	(4)	**6**	14	(8)
Total Pipelines & Liquids	**132**	164	(32)	**239**	305	(66)
CU Corporate & Other	**1**	3	(2)	**2**	7	(5)
Canadian Utilities Total	**241**	442	(201)	**556**	1,186	(630)
Structures & Logistics	**42**	19	23	**60**	41	19
Neltume Ports	**–**	–	–	**9**	–	9
ATCO Corporate & Other	**1**	1	–	**2**	7	(5)
ATCO Total (1) (2)	**284**	462	(178)	**627**	1,234	(607)

(1) Includes capital expenditures in joint ventures of $1 million and $1 million (2018 - $3 million and $8 million) for the second quarter and first half of 2019.

(2) Includes additions to property, plant and equipment, intangibles and $4 million and $9 million (2018 - $5 million and $10 million) of interest capitalized during construction for the second quarter and first half of 2019.

Base Shelf Prospectuses

CU Inc. Debentures

On June 11, 2018, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of July 24, 2019, aggregate issuances of debentures were $385 million.

Canadian Utilities Debt Securities and Preferred Shares

On June 11, 2018, Canadian Utilities filed a base shelf prospectus that permits it to issue up to an aggregate of $2 billion of debt securities and preferred shares over the 25-month life of the prospectus. No debt securities or preferred shares have been issued to date under this base shelf prospectus.

Dividends and Common Shares

We have increased our common share dividend each year since 1993, a 26-year track record. Dividends paid to Class I and Class II Share owners totaled $47 million in the second quarter and $93 million in the first half of 2019.

On July 11, 2019 the Board of Directors declared a third quarter dividend of 40.48 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on our financial condition and other factors.

26 year
track record of increasing common share dividends

Normal Course Issuer Bid

We believe that, from time to time, the market price of our Class I Shares may not fully reflect the value of our business, and that purchasing our own Class I Shares represents an attractive investment opportunity and desirable use of available funds. The purchase of Class I Shares, at appropriate prices, will also minimize any dilution resulting from the exercise of stock options.

On March 8, 2019, we commenced a normal course issuer bid to purchase up to 1,014,294 outstanding Class I Shares. This bid will expire on March 7, 2020. From March 8, 2019 to July 24, 2019, no shares were purchased.

SHARE CAPITAL

ATCO's equity securities consist of Class I Shares and Class II Shares.

At July 23, 2019, we had outstanding 101,463,218 Class I Shares, 13,215,047 Class II Shares, and options to purchase 679,063 Class I Shares.

CLASS I NON-VOTING SHARES AND CLASS II VOTING SHARES

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, except for voting rights.

Of the 10,200,000 Class I Shares authorized for grant of options under our stock option plan, 2,548,200 Class I Shares were available for issuance at June 30, 2019. Options may be granted to our officers and key employees at an exercise price 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 grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended September 30, 2017 through June 30, 2019.

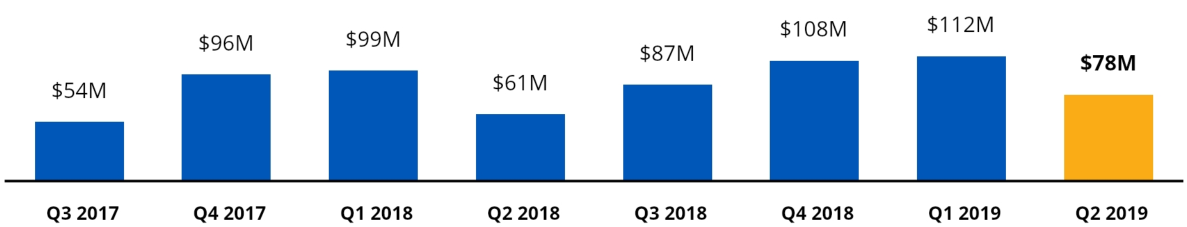
($ millions, except for per share data)	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Revenues	1,111	1,174	1,324	**1,103**
Earnings attributable to Class I and Class II Shares	115	135	112	**158**
Earnings per Class I and Class II Share *($)*	1.01	1.18	0.98	**1.38**
Diluted earnings per Class I and Class II Share *($)*	1.00	1.18	0.98	**1.37**
Adjusted earnings per Class I and Class II Share *($)*	0.76	0.94	0.98	**0.68**
Adjusted earnings				
Structures & Logistics	3	5	3	**7**
Neltume Ports	1	3	4	**4**
ATCO Corporate & Other	15	2	–	**–**
Canadian Utilities				
Electricity	70	54	61	**55**
Pipelines & Liquids	9	54	51	**23**
Canadian Utilities Corporate & Other	(11)	(10)	(7)	**(11)**
Total adjusted earnings	87	108	112	**78**

($ millions, except for per share data)	Q3 2017 [1]	Q4 2017 [1]	Q1 2018	Q2 2018
Revenues	1,062	1,345	1,500	1,103
Earnings (loss) attributable to Class I and Class II Shares	45	32	90	(12)
Earnings (loss) per Class I and Class II Share *($)*	0.40	0.28	0.78	(0.10)
Diluted earnings (loss) per Class I and Class II Share *($)*	0.40	0.28	0.78	(0.10)
Adjusted earnings per Class I and Class II Share *($)*	0.47	0.84	0.87	0.53
Adjusted earnings				
Structures & Logistics	1	2	1	6
Neltume Ports	–	–	–	–
ATCO Corporate & Other	3	4	2	(2)
Canadian Utilities				
Electricity	46	51	51	53
Pipelines & Liquids	13	49	53	14
Canadian Utilities Corporate & Other	(9)	(10)	(8)	(10)
Total adjusted earnings	54	96	99	61

(1) These numbers have been restated to account for the impact of IFRS 15 adopted on January 1, 2018.

ADJUSTED EARNINGS

Our financial results for the previous eight quarters reflect continued growth and regulatory decisions in Regulated Utility operations as well as fluctuating commodity prices in electricity generation and sales, and natural gas storage operations. Interim results will vary due to the seasonal nature of demand for electricity and natural gas, the timing of utility regulatory decisions and the cyclical demand for workforce housing and space rental products and services.



STRUCTURES & LOGISTICS

From the third quarter of 2017 to the first quarter of 2018, earnings were lower due to lower profit margins across all business lines and decreased modular structures project activity.

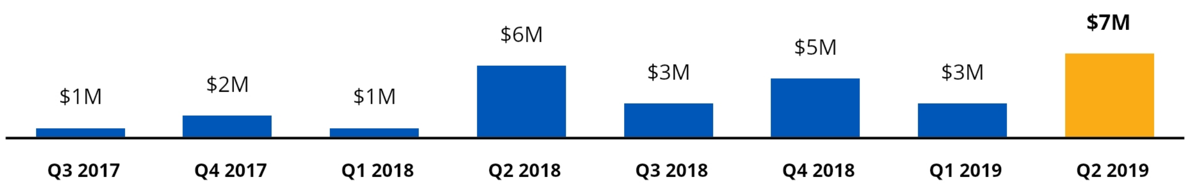
In the second quarter of 2018, earnings increased compared to the prior quarters mainly due to higher used fleet sales and space rental activity in modular structures, partially offset by lower workforce housing rental earnings in the U.S.

In the third quarter of 2018, earnings increased compared to the third quarter of 2017 mainly due to improved margins on both used workforce housing fleet sales and space rentals in Canada and Australia, as well as increased space rental activity and asset expansions in Mexico and Chile in modular structures.

In the fourth quarter of 2018, earnings increased compared to the fourth quarter of 2017 mainly due to higher space rentals activity, higher trade sale activity particularly in permanent modular construction in Canada and Australia, and higher occupancy at the BC Hydro Site C workforce housing camp.

In the first quarter of 2019, earnings increased compared to the first quarter of 2018 mainly due to higher space rental earnings, commencement of work on the LNG Canada modular structures project, and higher lodging occupancy at the BC Hydro Site C workforce housing camp.

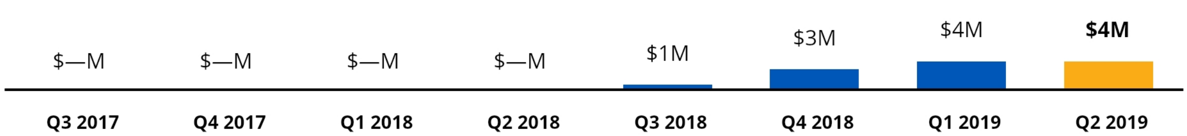
In the second quarter of 2019, earnings increased compared to the second quarter of 2018 mainly due to incremental earnings from the LNG Canada Project and higher space rental activity.



NELTUME PORTS

In the third quarter and fourth quarter of 2018, Neltume Ports earned $1 million and $3 million. On September 12, 2018, ATCO invested in a 40 per cent interest in Neltume Ports.

In the first quarter and second quarter of 2019, Neltume Ports earned $4 million and and $4 million, respectively.



CANADIAN UTILITIES

Electricity

Electricity adjusted earnings are impacted by the timing of certain major regulatory decisions, and Alberta Power Pool pricing and spark spreads.

In 2017, third quarter earnings included the adverse impact of the 2013 to 2014 Deferral Accounts decision in electricity transmission. Fourth quarter 2017 earnings were impacted by lower contributions in the electricity generation business from forward sales and increased business development expenses.

In 2018, earnings were adversely impacted by performance base regulation rate rebasing under Alberta's regulated model in electricity distribution and lower electricity transmission interim rates approved by the AUC.

In the first quarter of 2018, Electricity earnings were adversely impacted by realized forward sales and minor plant outage costs in the Independent Power Plants, partially offset by earnings from Alberta PowerLine due to construction activity and earnings in Thermal PPAs due to the recognition of availability incentives.

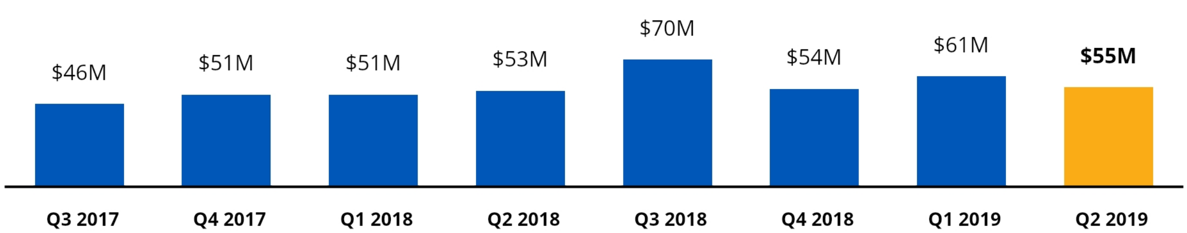
In the second quarter of 2018, earnings increased compared to the second quarter of 2017 mainly due to improved market conditions for Independent Power Plants and higher recognition of availability incentives in the Thermal PPA Plants.

In the third quarter of 2018, earnings increased compared to the third quarter of 2017 mainly due to the completion of performance obligations and additional availability incentive earnings which resulted from the Battle River unit 5 PPA termination, and improved market conditions for Independent Power Plants. These improved earnings were partially offset by lower earnings due to lower scheduled construction activity at Alberta PowerLine.

In the fourth quarter of 2018, higher earnings compared to the fourth quarter of 2017 were mainly due to earnings from the sale of the Barking Power assets and improved conditions in the Alberta power market, as well as higher APL earnings recorded as result of an early energization incentive.

In the first quarter of 2019, higher earnings were mainly due to increased Alberta power market prices, ongoing growth in the regulated rate base and cost efficiencies in electricity distribution.

In the second quarter of 2019, higher earnings compared to the second quarter of 2018 were mainly due to the impact of the electricity transmission 2018-2019 GTA decision, continued growth in the regulated rate base, cost efficiencies, and lower income taxes.



Pipelines & Liquids

Pipelines & Liquids' adjusted earnings are impacted by the timing of certain major regulatory decisions, seasonality, and demand for hydrocarbon and natural gas storage and water services.

In the third quarter of 2017, earnings were impacted by inflation adjustments to rates in our international natural gas distribution business. Higher earnings in the fourth quarter of 2017 were mainly a result of rate base growth across Pipelines & Liquids' regulated utilities.

In 2018, earnings were adversely impacted by performance base regulation rate rebasing under Alberta's regulated model in natural gas distribution.

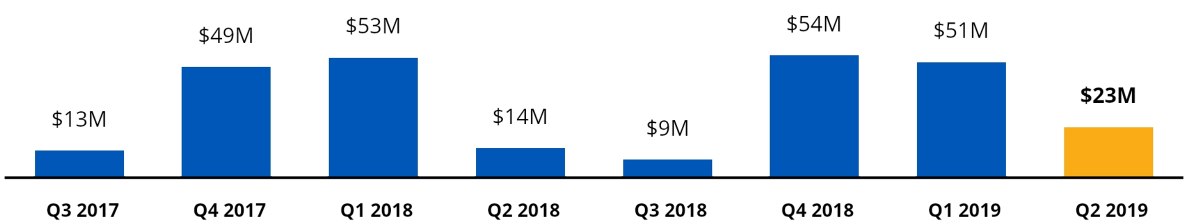
In the first quarter of 2018, earnings were positively impacted by higher seasonal demand and growth in rate base across the Pipelines & Liquids' Regulated businesses.

In the second and third quarters of 2018, lower earnings compared to the same periods in 2017 were mainly due to lower seasonal demand and the impact of rate rebasing under Alberta's regulated model in natural gas distribution, partially offset by growth in rate base across our Regulated Pipelines & Liquids businesses.

In the fourth quarter of 2018, higher earnings compared to the fourth quarter of 2017 were mainly due to growth in rate base, the timing of regulatory decisions and higher seasonal demand.

In the first quarter of 2019, lower earnings compared to the first quarter of 2018 were mainly due to inflation rate adjustments applied to the rate of return calculations in international natural gas distribution, partially offset by ongoing growth in the regulated rate base and cost efficiencies in natural gas distribution.

In the second quarter of 2019, higher earnings compared to the second quarter of 2018 were mainly due to ongoing growth in the regulated rate base and the impact of the natural gas transmission 2019-2020 general rate application GRA decision, earnings growth in the hydrocarbon storage business, cost efficiencies, and lower income taxes.



EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Earnings attributable to Class I and Class II Shares includes timing adjustments related to rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. They also include one-time gains and losses, significant impairments, restructuring charges and other items that are not in the normal course of business or a result of day-to-day operations recorded at various times over the past eight quarters. These items are excluded from adjusted earnings and are highlighted below:

- In the fourth quarter of 2017, impairment charges of $23 million were recorded relating to Structures & Logistics' workforce housing assets in Canada and space rental assets in the U.S. The Company determined these assets were impaired due to a reduction in utilization, sustained decreases in key commodity prices as well as a significant reduction in the capital expenditure programs of key customers.
- In the fourth quarter of 2017, the Company recorded an increase to earnings of $16 million on derecognition of customer contributions related to a sale of electricity generation assets on transitioning to finance lease accounting which resulted from the implementation of IFRS 15.
- In the second quarter of 2018, restructuring and other costs not in the normal course of business of $39 million were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.
- In the third quarter of 2018, the Battle River unit 5 PPA was terminated by the Balancing Pool and dispatch control was returned to Canadian Utilities. Canadian Utilities received a payment from the Balancing Pool and also recorded additional coal-related costs and Asset Retirement Obligations associated with the Battle River generating facility. This one-time receipt and costs in the net amount of $19 million was excluded from adjusted earnings.
- In the fourth quarter of 2018, Canadian Utilities sold its 100 per cent ownership interest in Barking Power assets. A gain in the amount of $46 million was excluded from adjusted earnings.
- In the second quarter of 2019, ATCO recorded transaction costs of $5 million for Canadian Utilities' pending sale of the Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine Limited Partnership. These costs are related to one-time transactions and are therefore excluded from adjusted earnings.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Adjusted earnings are defined as earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings attributable to Class I and Class II Shares is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 4 of the unaudited interim consolidated financial statements.

Adjusted earnings per Class I and Class II Share is calculated by dividing adjusted earnings by the weighted average number of shares outstanding for the period.

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

Capital investment is defined as cash used for capital expenditures, business combinations, service concession arrangements, and cash used in the Company's proportional share of capital expenditures in joint ventures, and cash used for equity investment in associate companies. In management's opinion, capital investment reflects the Company's total cash investment in assets. Capital expenditures includes additions to property, plant and equipment and intangibles as well as interest capitalized during construction. A reconciliation of capital investments to capital expenditures is presented in this MD&A.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS ATTRIBUTABLE TO CLASS I AND CLASS II SHARES

Adjusted earnings are earnings attributable to Class I and Class II Shares after adjusting for the timing of revenues and expenses associated with rate-regulated activities and unrealized gains or losses on mark-to-market forward commodity contracts. Adjusted earnings also exclude one-time gains and losses, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada and Australia than IFRS earnings.

($ millions)

Three Months Ended June 30

2019 / **2018**	**Structures & Logistics**	**Neltume Ports**	**ATCO Corporate & Other**	**Canadian Utilities Limited**				**ATCO Consolidated**
				Electricity	**Pipelines & Liquids**	**CUL Corporate & Other**	**Consolidated**	
Revenues	**204**	**–**	**(3)**	**516**	**355**	**31**	**902**	**1,103**
	136	–	–	634	315	18	967	1,103
Adjusted earnings (loss)	**7**	**4**	**–**	**55**	**23**	**(11)**	**67**	**78**
	6	–	(2)	53	14	(10)	57	61
Transaction costs	**–**	**–**	**–**	**(5)**	**–**	**–**	**(5)**	**(5)**
	–	–	–	–	–	–	–	–
Restructuring and other costs	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	(9)	–	3	(19)	(11)	(3)	(33)	(39)
Unrealized (losses) gains on mark-to-market forward commodity contracts	**–**	**–**	**–**	**(3)**	**–**	**–**	**(3)**	**(3)**
	–	–	–	6	–	–	6	6
Rate-regulated activities	**–**	**–**	**–**	**63**	**36**	**(3)**	**96**	**96**
	–	–	1	(27)	(12)	–	(39)	(38)
IT Common Matters decision	**–**	**–**	**–**	**(4)**	**(4)**	**–**	**(8)**	**(8)**
	–	–	–	–	–	–	–	–
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	–	(2)	–	(2)	(2)
Earnings (loss) attributable to Class I and Class II Shares	**7**	**4**	**–**	**106**	**55**	**(14)**	**147**	**158**
	(3)	–	2	13	(11)	(13)	(11)	(12)

($ millions)								Six Months Ended June 30
2019 2018	**Structures & Logistics**	**Neltume Ports**	**ATCO Corporate & Other**	**Canadian Utilities Limited**				**ATCO Consolidated**
				Electricity	**Pipelines & Liquids**	**CUL Corporate & Other**	**Consolidated**	
Revenues	**342**	**–**	**(6)**	**1,206**	**832**	**53**	**2,091**	**2,427**
	251	–	–	1,533	800	19	2,352	2,603
Adjusted earnings (loss)	**10**	**8**	**–**	**116**	**74**	**(18)**	**172**	**190**
	7	–	1	104	67	(19)	152	160
Transaction costs	**–**	**–**	**–**	**(5)**	**–**	**–**	**(5)**	**(5)**
	–	–	–	–	–	–	–	–
Restructuring and other costs	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	(9)	–	3	(19)	(11)	(3)	(33)	(39)
Unrealized (losses) gains on mark-to-market forward commodity contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	(3)	–	–	(3)	(3)
Rate-regulated activities	**–**	**–**	**–**	**61**	**34**	**(2)**	**93**	**93**
	–	–	2	(34)	(7)	–	(41)	(39)
IT Common Matters decision	**–**	**–**	**–**	**(4)**	**(4)**	**–**	**(8)**	**(8)**
	–	–	–	–	–	–	–	–
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	–	(1)	–	(1)	(1)
Earnings (loss) attributable to Class I and Class II Shares	**10**	**8**	**–**	**168**	**104**	**(20)**	**252**	**270**
	(2)	–	6	48	48	(22)	74	78

TRANSACTION COSTS

In the second quarter of 2019, the Company incurred transaction costs for the announced sales of the Canadian fossil fuel-based electricity generation portfolio and Alberta PowerLine Limited Partnership. As these costs are related to one-time transactions, they are excluded from adjusted earnings.

RESTRUCTURING AND OTHER COSTS

In the second quarter of 2018, restructuring and other costs not in the normal course of business of $39 million after-tax were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.

UNREALIZED GAINS (LOSSES) ON MARK-TO-MARKET FORWARD COMMODITY CONTRACTS

The Company enters into forward contracts in order to optimize available merchant capacity and manage exposure to electricity market price movements for its Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. The forward contracts are measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts are recognized in earnings where hedge accounting is not applied. The CODM believes that removal of the unrealized gains or losses on mark-to-market forward commodity contracts provides a better representation of operating results for the Company's Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

RATE-REGULATED ACTIVITIES

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas, ATCO Pipelines and ATCO Gas Australia are collectively referred to as Utilities.

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

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulator's decisions on revenues.

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

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes, impact of warmer temperatures, and impact of inflation on rate base.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

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

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	2019	2018	Change	2019	2018	Change
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**8**	11	(3)	**19**	21	(2)
Impact of colder temperatures (2)	**–**	–	–	**6**	6	–
Revenues to be billed in future periods						
Deferred income taxes (3)	**(14)**	(14)	–	**(29)**	(31)	2
Deferred income taxes due to decrease in provincial corporate income tax (4)	**106**	–	106	**106**	–	106
Impact of inflation on rate base (5)	**(2)**	–	(2)	**(2)**	–	(2)
Regulatory decisions received (see below)	**(1)**	–	(1)	**(1)**	–	(1)
Settlement of regulatory decisions and other items (6)	**(1)**	(35)	34	**(6)**	(35)	29
	96	(38)	134	**93**	(39)	132

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

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

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

(4) *In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate tax rate from 12 per cent to 8 per cent. This decrease is phased in increments from July 1, 2019 to January 1, 2022. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings for the three and six months ended June 30, 2019 by $106 million.*

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

(6) *In the second quarter of 2018, ATCO Electric recorded a decrease in earnings for the period of $20 million mainly related to the refund of deferral account balances for 2013 and 2014. ATCO Gas also recorded a reduction in earnings for the period of $12 million related to the refund of previously over collected transmission costs.*

Regulatory Decisions Received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2019 is provided below.

Decision	Amount	Description
1. Information Technology (IT) Common Matters	8	In August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. In 2015, the AUC commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13% and to apply a glide path that reduces pricing by 4.61% in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to June 30, 2019 of $8 million was recorded in the second quarter of 2019.
2. ATCO Electric Transmission General Tariff Application (GTA)	(9)	In June 2017, ATCO Electric filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision of $9 million was recorded in the second quarter of 2019.

IT COMMON MATTERS DECISION

As described in the IT Common Matters decision above, in August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $74 million. In 2014, CU did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding which is described in the regulatory decisions received section above. In the proceeding, the Company presented a considerable amount of evidence, including expert benchmarking and price review studies, to support that the Wipro MSA rates were at fair market value. As such, there was no cross subsidization between the sale price of the Company's IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC found that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

Consistent with the treatment in 2014, the $8 million reduction booked in the second quarter of 2019, along with future impacts associated with this decision, will not be included in adjusted earnings.

OTHER

Each quarter, the Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. For the three and six months ended June 30, 2019, the Company recorded a foreign exchange gain of nil, (2018 - a foreign exchange loss of $2 million and $1 million) due to a difference between the tax base currency, which is Mexican pesos, and the U.S. dollar functional currency.

RECONCILIATION OF FUNDS GENERATED BY OPERATIONS TO CASH FLOWS FROM OPERATING ACTIVITIES

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital and change in receivable under service concession arrangement. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

($ millions)

2019 **2018**	**Three Months Ended June 30**	**Six Months Ended June 30**
Funds generated by operations	**433**	**1,012**
	317	858
Changes in non-cash working capital	**(95)**	**(190)**
	(65)	89
Change in receivable under service concession arrangement	**(13)**	**(139)**
	(181)	(580)
Cash flows from operating activities	**325**	**683**
	71	367

RECONCILIATION OF CAPITAL INVESTMENT TO CAPITAL EXPENDITURES

Capital investment is defined as cash used for capital expenditures, business combinations, service concession arrangements, and cash used in the Company's proportional share of capital expenditures in joint ventures, and cash used for equity investment in associate companies. In management's opinion, capital investment reflects the Company's total cash investment in assets. Capital expenditures includes additions to property, plant and equipment and intangibles as well as interest capitalized during construction. A reconciliation of capital investments to capital expenditures is presented in this MD&A.

($ millions) **Three Months Ended June 30**

2019 / **2018**	**Structures & Logistics**	**Neltume Ports**	**ATCO Corporate & Other**	**Canadian Utilities Limited**				**ATCO Consolidated**
				Electricity	**Pipelines & Liquids**	**CUL Corporate & Other**	**Consolidated**	
Capital Investment	**42**	–	**1**	**108**	**132**	**1**	**241**	**284**
	19	–	1	275	164	3	442	462
Equity investment in associate company	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
Capital expenditure in joint ventures	–	–	–	–	**(1)**	–	**(1)**	**(1)**
	–	–	–	(1)	(2)	–	(3)	(3)
Business combination [1]	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
Service concession arrangement	–	–	–	–	–	–	–	–
	–	–	–	(148)	–	–	(148)	(148)
Capital Expenditures	**42**	–	**1**	**108**	**131**	**1**	**240**	**283**
	19	–	1	126	162	3	291	311

($ millions)

Six Months Ended June 30

2019 / 2018	Structures & Logistics	Neltume Ports	ATCO Corporate & Other	Canadian Utilities Limited				ATCO Consolidated
				Electricity	Pipelines & Liquids	CUL Corporate & Other	Consolidated	
Capital Investment	**60**	**9**	**2**	**315**	**239**	**2**	**556**	**627**
	41	–	7	874	305	7	1,186	1,234
Equity investment in associate company	**–**	**(9)**	**–**	**–**	**–**	**–**	**–**	**(9)**
	–	–	–	–	–	–	–	–
Capital expenditure in joint ventures	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**(1)**
	–	–	–	(4)	(4)	–	(8)	(8)
Business combination [1]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	–	–	(112)	–	–	(112)	(112)
Service concession arrangement	**–**	**–**	**–**	**(95)**	**–**	**–**	**(95)**	**(95)**
	–	–	–	(516)	–	–	(516)	(516)
Capital Expenditures	**60**	**–**	**2**	**220**	**238**	**2**	**460**	**522**
	41	–	7	242	301	7	550	598

(1) *Business combination includes ATCO subsidiary Canadian Utilities' acquisition of Electricidad de Golfo, a long-term contracted, 35 MW hydroelectric power station in the state of Veracruz, Mexico.*

OTHER FINANCIAL INFORMATION

ACCOUNTING CHANGES

On January 1, 2019, the Company adopted the new accounting standard, IFRS 16 *Leases*, which replaces IAS 17 *Leases* and related interpretations. This standard introduces a new approach to lease accounting that requires a lessee to recognize right-of-use assets and lease liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance.

The Company adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in the unaudited interim consolidated financial statements is not restated.

On adoption of the new standard on January 1, 2019, the Company recognized $107 million of right-of-use assets and $107 million of lease liabilities. The right-of-use assets and lease liabilities relate to leases for land and buildings. From January 1, 2019, the Company recognizes depreciation expense on right-of-use assets and interest expense on lease liabilities with lease payments recorded as a reduction of the lease liability. Prior to the adoption of IFRS 16, lease payments were recorded as expenses in the statement of earnings. The adoption of IFRS 16 has not had a significant impact on earnings. Further information on the adoption of IFRS 16, right-of-use assets and lease liabilities are provided in Notes 3, 9 and 12 of the unaudited interim consolidated financial statements.

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner's land, and the owner of the pipeline has exclusive use of the underground space. The Company is currently assessing the impact of the interpretation on its pipeline sub-surface arrangements. The assessment is expected to be complete before the end of 2019. Based on the preliminary analysis performed to date, the impact on the consolidated financial statements is not expected to be significant.

There are no other new or amended standards issued, but not yet effective, that the Company anticipates will have a material effect on the unaudited interim consolidated financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on April 1, 2019, and ended on June 30, 2019, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions, and other factors, many of which are beyond the control of the Company.

Any forward-looking information contained in this MD&A represents the Company's expectations as of the date hereof, and is subject to change after such date. The Company disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

ADDITIONAL INFORMATION

ATCO has published its unaudited interim consolidated financial statements and its MD&A for the six months ended June 30, 2019. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

AESO means the Alberta Electric System Operator.

Alberta Power Pool means the market for electricity in Alberta operated by AESO.

Alberta Utilities means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

AUC means the Alberta Utilities Commission.

Availability is a measure of time, expressed as a percentage of continuous operation, that a generating unit is capable of producing electricity, regardless of whether the unit is actually generating electricity.

Class I Shares means Class I Non-Voting Shares of the Company.

Class II Shares means Class II Voting Shares of the Company.

CODM means Chief Operating Decision Maker, and is comprised of the Chair, Chief Executive Officer, and the other members of the Executive Committee.

Company means ATCO Ltd. and, unless the context otherwise requires, includes its subsidiaries and joint arrangements.

Earnings means Adjusted Earnings as defined in the Non-GAAP and Additional GAAP Measures section of this MD&A.

GAAP means Canadian generally accepted accounting principles.

Gigajoule (GJ) is a unit of energy equal to approximately 948.2 thousand British thermal units.

IFRS means International Financial Reporting Standards.

LNG means liquefied natural gas.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

Megawatt hour (MWh) is a measure of electricity consumption equal to the use of 1,000,000 watts of electricity over a one-hour period.

PPA means Power Purchase Arrangements that became effective on January 1, 2001, as part of the process of restructuring the electricity utility business in Alberta. PPAs are legislatively mandated and approved by the AUC.

Regulated Utilities means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas), Natural Gas Transmission (ATCO Pipelines) and International Natural Gas Distribution (ATCO Gas Australia).

Spark spread is the difference between the selling price of electricity and the marginal cost of producing electricity from natural gas. In this MD&A, spark spreads are based on an approximate industry heat rate of 7.5 GJ per MWh.

ATCO LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2019

TABLE OF CONTENTS

CONSOLIDATED STATEMENTS OF EARNINGS

		Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars except per share data)	**Note**	**2019**	**2018**	**2019**	**2018**
Revenues	5	**1,103**	1,103	**2,427**	2,603
Costs and expenses					
Salaries, wages and benefits		**(139)**	(191)	**(267)**	(323)
Energy transmission and transportation		**(51)**	(46)	**(103)**	(90)
Plant and equipment maintenance		**(73)**	(64)	**(133)**	(117)
Fuel costs		**(45)**	(48)	**(123)**	(110)
Purchased power		**(49)**	(43)	**(113)**	(81)
Service concession arrangement costs		**(8)**	(148)	**(103)**	(516)
Materials and consumables		**(125)**	(74)	**(202)**	(136)
Depreciation and amortization	8, 9	**(167)**	(198)	**(334)**	(358)
Franchise fees		**(55)**	(44)	**(129)**	(123)
Property and other taxes		**(40)**	(49)	**(89)**	(94)
Unrealized (losses) gains on mark-to-market forward commodity contracts		**(7)**	16	**1**	(8)
Other		**(93)**	(102)	**(160)**	(180)
		(852)	(991)	**(1,755)**	(2,136)
Earnings from investment in associate company		**4**	–	**8**	–
Earnings from investment in joint ventures		**5**	6	**13**	14
Operating profit		**260**	118	**693**	481
Interest income		**6**	10	**12**	20
Interest expense		**(130)**	(126)	**(259)**	(250)
Net finance costs		**(124)**	(116)	**(247)**	(230)
Earnings before income taxes		**136**	2	**446**	251
Income tax recovery (expense)	6	**175**	(5)	**91**	(69)
Earnings (loss) for the period		**311**	(3)	**537**	182
Earnings (loss) attributable to:					
Class I and Class II Shares		**158**	(12)	**270**	78
Non-controlling interests		**153**	9	**267**	104
		311	(3)	**537**	182
Earnings (loss) per Class I and Class II Share	7	**$1.38**	$(0.10)	**$2.36**	$0.68
Diluted earnings (loss) per Class I and Class II Share	7	**$1.37**	$(0.10)	**$2.35**	$0.68

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Three Months Ended June 30 2019	Three Months Ended June 30 2018	Six Months Ended June 30 2019	Six Months Ended June 30 2018
Earnings (loss) for the period	**311**	(3)	**537**	182
Other comprehensive (loss) income, net of income taxes				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits (1)	**(41)**	46	**(120)**	25
Items that are or may be reclassified subsequently to earnings:				
Cash flow hedges (2) (4)	**(5)**	2	**(10)**	(5)
Cash flow hedges reclassified to earnings (3) (5)	**2**	3	**4**	3
Foreign currency translation adjustment (3)	**(28)**	(16)	**(46)**	11
	(31)	(11)	**(52)**	9
Other comprehensive (loss) income	**(72)**	35	**(172)**	34
Comprehensive income for the period	**239**	32	**365**	216
Comprehensive income attributable to:				
Class I and Class II Shares	**113**	8	**165**	101
Non-controlling interests	**126**	24	**200**	115
	239	32	**365**	216

(1) Net of income taxes of $8 million and $37 million for the three and six months ended June 30, 2019 (2018 - $(18) million and $(10) million).

(2) Net of income taxes of $2 million and $4 million for the three and six months ended June 30, 2019 (2018 - $(2) million and nil).

(3) Net of income taxes of nil.

(4) $(3) million and $(4) million for the three and six months ended June 30, 2019 relate to cash flow hedges included in liabilities of disposal groups classified as held for sale.

(5) $3 million and $4 million for the three and six months ended June 30, 2019 relate to cash flow hedges included in liabilities of disposal groups classified as held for sale.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	June 30 2019	December 31 2018
ASSETS			
Current assets			
Cash and cash equivalents	14, 16	**544**	691
Accounts receivable and contract assets		**614**	745
Finance lease receivables		**8**	15
Inventories		**86**	66
Restricted project funds	16	**–**	339
Receivable under service concession arrangement	16	**–**	67
Prepaid expenses and other current assets		**78**	174
		1,330	2,097
Assets of disposal groups classified as held for sale	16	**2,836**	–
		4,166	2,097
Non-current assets			
Property, plant and equipment	8, 16	**17,509**	17,865
Intangibles	16	**653**	672
Right-of-use assets	3, 9	**100**	–
Goodwill		**82**	82
Investment in joint ventures		**192**	240
Investment in associate company		**472**	491
Finance lease receivables		**176**	380
Deferred income tax assets	6	**53**	85
Receivable under service concession arrangement	16	**–**	1,329
Other assets		**69**	103
Total assets		**23,472**	23,344
LIABILITIES			
Current liabilities			
Bank indebtedness	14	**4**	–
Accounts payable and accrued liabilities		**544**	921
Lease liabilities	3, 12	**16**	–
Other current liabilities		**30**	144
Short-term debt	10	**550**	175
Long-term debt	11	**382**	488
Non-recourse long-term debt	16	**–**	20
		1,526	1,748
Liabilities of disposal groups classified as held for sale	16	**2,040**	–
		3,566	1,748
Non-current liabilities			
Deferred income tax liabilities	6	**1,148**	1,399
Retirement benefit obligations		**542**	384
Customer contributions		**1,695**	1,798
Lease liabilities	3, 12	**85**	–
Other liabilities	16	**95**	283
Long-term debt	11	**8,775**	8,909
Non-recourse long-term debt	16	**–**	1,381
Total liabilities		**15,906**	15,902
EQUITY			
Class I and Class II Share owners' equity			
Class I and Class II shares	13	**171**	169
Contributed surplus		**11**	11
Retained earnings		**3,643**	3,535
Accumulated other comprehensive income		**–**	40
		3,825	3,755
Non-controlling interests		**3,741**	3,687
Total equity		**7,566**	7,442
Total liabilities and equity		**23,472**	23,344

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class I and Class II Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-Controlling Interests	Total Equity
December 31, 2017		167	10	3,355	(2)	3,530	3,579	7,109
Earnings for the period		–	–	78	–	78	104	182
Other comprehensive income		–	–	–	23	23	11	34
Gains on retirement benefits transferred to retained earnings		–	–	14	(14)	–	–	–
Shares issued		–	–	–	–	–	31	31
Dividends	13	–	–	(86)	–	(86)	(138)	(224)
Share-based compensation		2	–	2	–	4	(1)	3
Changes in ownership interest in subsidiary company (1)		–	–	20	–	20	(20)	–
June 30, 2018		169	10	3,383	7	3,569	3,566	7,135
December 31, 2018		169	11	3,535	40	3,755	3,687	7,442
Earnings for the period		–	–	**270**	–	**270**	**267**	**537**
Other comprehensive loss		–	–	–	**(105)**	**(105)**	**(67)**	**(172)**
Losses on retirement benefits transferred to retained earnings		–	–	**(65)**	**65**	–	–	–
Dividends	13	–	–	**(93)**	–	**(93)**	**(147)**	**(240)**
Share-based compensation		**2**	–	–	–	**2**	**1**	**3**
Other		–	–	**(4)**	–	**(4)**	–	**(4)**
June 30, 2019		**171**	**11**	**3,643**	–	**3,825**	**3,741**	**7,566**

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

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Three Months Ended June 30 2019	Three Months Ended June 30 2018	Six Months Ended June 30 2019	Six Months Ended June 30 2018
Operating activities					
Earnings (loss) for the period		**311**	(3)	**537**	182
Adjustments to reconcile earnings to cash flows from operating activities	14	**122**	320	**475**	676
Changes in non-cash working capital		**(95)**	(65)	**(190)**	89
Change in receivable under service concession arrangement		**(13)**	(181)	**(139)**	(580)
Cash flows from operating activities		**325**	71	**683**	367
Investing activities					
Additions to property, plant and equipment		**(262)**	(281)	**(480)**	(548)
Proceeds on disposal of property, plant and equipment		**–**	1	**1**	1
Additions to intangibles		**(17)**	(25)	**(33)**	(40)
Acquisition, net of cash acquired		**–**	–	**–**	(70)
Investment in equity interest in associate company		**–**	–	**(9)**	–
Investment in joint ventures		**–**	–	**–**	(6)
Changes in non-cash working capital		**(20)**	(56)	**(34)**	(81)
Other		**4**	1	**4**	(3)
Cash flows used in investing activities		**(295)**	(360)	**(551)**	(747)
Financing activities					
Net issue (repayment) of short-term debt	10	**150**	(50)	**375**	40
Issue of long-term debt		**26**	–	**26**	140
Repayment of long-term debt	11	**(31)**	(47)	**(232)**	(105)
Release of restricted project funds		**72**	277	**177**	493
Repayment of non-recourse long-term debt		**(4)**	(3)	**(7)**	(7)
Repayment of lease liabilities	12	**(5)**	–	**(9)**	–
Issue of shares by subsidiary companies		**–**	–	**–**	1
Issue of Class I Shares		**–**	(1)	**1**	2
Dividends paid to Class I and Class II Share owners		**(47)**	(43)	**(93)**	(86)
Dividends paid to non-controlling interests		**(73)**	(54)	**(147)**	(107)
Interest paid		**(146)**	(137)	**(252)**	(240)
Other		**3**	5	**17**	7
Cash flows (used in) from financing activities		**(55)**	(53)	**(144)**	138
Decrease in cash position (1)		**(25)**	(342)	**(12)**	(242)
Foreign currency translation		**5**	(5)	**2**	(1)
Beginning of period		**701**	598	**691**	494
End of period	14	**681**	251	**681**	251
Presented on balance sheet as follows:					
Cash and cash equivalents		**544**	–	**544**	–
Assets of disposal groups classified as held for sale	16	**141**	–	**141**	–
Bank indebtedness		**(4)**	–	**(4)**	–
		681	–	**681**	–

(1) *Cash position includes $75 million which is not available for general use by the Company (2018 - $57 million).*

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2019

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

1. THE COMPANY AND ITS OPERATIONS

ATCO Ltd. was incorporated under the laws of the province of Alberta and is listed on the Toronto Stock Exchange. Its head office and registered office is at 4th Floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. ATCO Ltd. is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

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

- Structures & Logistics (workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management);
- Canadian Utilities Limited, including:
    - Electricity (electricity generation, distributed generation, and electricity distribution, transmission and infrastructure development);
    - Pipelines & Liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions);
    - Retail Energy (included in the Corporate & Other segment); and
- Neltume Ports (ports and transportation logistics).

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

Principal operating subsidiaries are:

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

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and IFRS Interpretations Committee (IFRIC). They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2018, prepared according to IFRS.

The unaudited interim consolidated financial statements are prepared following the same accounting policies used in the Company’s most recent annual consolidated financial statements, except for the change in accounting policy described in Note 3 and income taxes. In interim periods, income taxes are accrued using an estimate of the annualized effective tax rate applied to year-to-date earnings.

The unaudited interim consolidated financial statements were authorized for issue by the Audit & Risk Committee, on behalf of the Board of Directors, on July 24, 2019.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value.

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations, changes in electricity prices in Alberta, the timing and demand of natural gas storage capacity sold, changes in natural gas storage fees, the timing of maintenance outages at power generating plants, the timing of utility rate decisions and changes in market conditions for workforce housing and space rentals operations.

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

3. CHANGE IN ACCOUNTING POLICY

LEASES

The Company adopted IFRS 16 *Leases* on January 1, 2019, which introduces a new approach to lease accounting. The Company adopted the standard using the modified retrospective approach, which does not require restatement of prior period financial information, as it recognizes the cumulative impact on the opening balance sheet and applies the standard prospectively. Accordingly, the comparative information in these unaudited interim consolidated financial statements is not restated.

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or modified, on or after January 1, 2019.

Practical expedients

Effective January 1, 2019, the IFRS 16 transition date, the Company elected to use the following practical expedients under the modified retrospective transition approach:

- Leases with lease terms of less than twelve months (short-term leases) and leases of low-value assets (less than $5,000 U.S. dollars) (low-value leases) that have been identified at transition, were not recognized in the consolidated balance sheet;
- Right-of-use assets on transition were measured at the amount equal to the lease liabilities at transition, adjusted by the amount of any prepaid or accrued lease payments;
- For certain leases having associated initial direct costs, the Company, at initial measurement on transition, excluded these directs costs from the measurement of the right-of-use assets; and
- Any provision for onerous lease contracts previously recognized at the date of adoption of IFRS 16, has been applied to the associated right-of-use asset recognized upon transition.

The Company as a lessee

Where the Company is a lessee, a right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company.

The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis. The cost of the right-of-use asset is based on the following:

- the amount of initial recognition of related lease liability;
- adjusted by any lease payments made on or before inception of the lease;
- increased by any initial direct costs incurred; and
- decreased by lease incentives received and any costs to dismantle the leased asset.

The lease term includes consideration of an option to extend or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option.

The payments related to short-term leases and low-value leases are recognized as other expenses over the lease term in the unaudited interim consolidated statements of earnings.

Significant accounting estimates and assumptions

In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgment to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security. The Company estimates the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

The Company as a lessor

The Company's unaudited interim consolidated financial statements were not impacted by the adoption of IFRS 16 *Leases* in relation to lessor accounting. Lessors will continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17 *Leases*.

Sub-surface Rights

In June 2019, the IFRS Interpretations Committee, acting on a request for interpretation, concluded that a pipeline sub-surface arrangement is, or contains, a lease under IFRS 16. A pipeline sub-surface arrangement is an agreement with a landowner to lay an underground pipeline in exchange for consideration. It contains a lease because the underground space is physically distinct from the landowner's land, and the owner of the pipeline has exclusive use of the underground space.

The Company is currently assessing the impact of the interpretation on its pipeline sub-surface arrangements. The assessment is expected to be complete before the end of 2019. Based on the preliminary analysis performed to date, the impact on the consolidated financial statements is not expected to be significant.

IMPACT OF CHANGES IN ACCOUNTING POLICY

Impact of adoption of IFRS 16 on unaudited interim consolidated financial statements

On January 1, 2019, the Company recognized $107 million of right-of-use assets and $107 million of lease liabilities. The Company applied its weighted average incremental borrowing rate at January 1, 2019, 3.00 per cent, to determine the amount of lease liabilities. The effect of the adjustment to the amounts recognized in the Company's unaudited interim consolidated balance sheet at January 1, 2019 is shown below.

(millions of Canadian Dollars)	Note	December 31, 2018, as previously reported	IFRS 16 re-measurement adjustments on January 1, 2019	Restated
ASSETS				
Non-current assets				
Right-of-use assets	9	–	107	107
Total assets		23,344	107	23,451
LIABILITIES				
Current liabilities				
Lease liabilities	12	–	18	18
Non-current liabilities				
Lease liabilities	12	–	89	89
Total liabilities		15,902	107	16,009
EQUITY				
Class I and Class II Share owners' equity				
Class I and Class II Shares		169	–	169
Contributed surplus		11	–	11
Retained earnings		3,535	–	3,535
Accumulated other comprehensive income		40	–	40
		3,755	–	3,755
Non-controlling interests		3,687	–	3,687
Total equity		7,442	–	7,442
Total liabilities and equity		23,344	107	23,451

The reconciliation of differences between the operating lease commitments disclosed at December 31, 2018 (when applying IAS 17 *Leases*), discounted using the weighted average incremental borrowing rate at January 1, 2019, and the lease liabilities recognized upon adoption of IFRS 16 *Leases*, is shown below.

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

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

4. SEGMENTED INFORMATION

SEGMENTED RESULTS

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

2019 2018	Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited: Electricity	Canadian Utilities Limited: Pipelines & Liquids	Canadian Utilities Limited: Corporate & Other	Canadian Utilities Limited: Consolidated	ATCO Consolidated
Revenues - external	**204**	**–**	**(3)**	**517**	**346**	**39**	**902**	**1,103**
	136	–	–	635	304	28	967	1,103
Revenues - intersegment	**–**	**–**	**–**	**(1)**	**9**	**(8)**	**–**	**–**
	–	–	–	(1)	11	(10)	–	–
Revenues	**204**	**–**	**(3)**	**516**	**355**	**31**	**902**	**1,103**
	136	–	–	634	315	18	967	1,103
Operating expenses [1]	**(181)**	**–**	**8**	**(263)**	**(214)**	**(35)**	**(512)**	**(685)**
	(125)	–	4	(411)	(224)	(37)	(672)	(793)
Depreciation and amortization	**(11)**	**–**	**(2)**	**(89)**	**(63)**	**(2)**	**(154)**	**(167)**
	(15)	–	(1)	(109)	(73)	–	(182)	(198)
Earnings from investment in associate company	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**4**
	–	–	–	–	–	–	–	–
Earnings from investment in joint ventures	**1**	**–**	**–**	**1**	**3**	**–**	**4**	**5**
	2	–	–	2	2	–	4	6
Net finance costs	**(3)**	**–**	**(4)**	**(80)**	**(38)**	**1**	**(117)**	**(124)**
	(1)	–	–	(80)	(39)	4	(115)	(116)
Earnings (loss) before income taxes	**10**	**4**	**(1)**	**85**	**43**	**(5)**	**123**	**136**
	(3)	–	3	36	(19)	(15)	2	2
Income tax recovery (expense)	**(3)**	**–**	**1**	**123**	**62**	**(8)**	**177**	**175**
	–	–	(1)	(11)	1	6	(4)	(5)
Earnings (loss) for the period	**7**	**4**	**–**	**208**	**105**	**(13)**	**300**	**311**
	(3)	–	2	25	(18)	(9)	(2)	(3)
Adjusted earnings (loss)	**7**	**4**	**–**	**55**	**23**	**(11)**	**67**	**78**
	6	–	(2)	53	14	(10)	57	61
Capital expenditures [3]	**42**	**–**	**1**	**108**	**131**	**1**	**240**	**283**
	19	–	1	126	162	3	291	311

Results by operating segment for the six months ended June 30 are shown below.

2019 2018	Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited Electricity	Pipelines & Liquids	Corporate & Other	Consolidated	ATCO Consolidated
Revenues - external	**342**	**–**	**(6)**	**1,198**	**794**	**99**	**2,091**	**2,427**
	251	–	–	1,523	772	57	2,352	2,603
Revenues - intersegment	**–**	**–**	**–**	**8**	**38**	**(46)**	**–**	**–**
	–	–	–	10	28	(38)	–	–
Revenues	**342**	**–**	**(6)**	**1,206**	**832**	**53**	**2,091**	**2,427**
	251	–	–	1,533	800	19	2,352	2,603
Operating expenses [(1)]	**(303)**	**–**	**18**	**(621)**	**(461)**	**(54)**	**(1,136)**	**(1,421)**
	(232)	–	10	(1,053)	(460)	(43)	(1,556)	(1,778)
Depreciation and amortization	**(20)**	**–**	**(3)**	**(181)**	**(126)**	**(4)**	**(311)**	**(334)**
	(22)	–	(3)	(201)	(132)	–	(333)	(358)
Earnings from investment in associate company	**–**	**8**	**–**	**–**	**–**	**–**	**–**	**8**
	–	–	–	–	–	–	–	–
Earnings from investment in joint ventures	**1**	**–**	**–**	**6**	**6**	**–**	**12**	**13**
	2	–	–	9	3	–	12	14
Net finance costs	**(4)**	**–**	**(9)**	**(160)**	**(77)**	**3**	**(234)**	**(247)**
	(1)	–	–	(159)	(77)	7	(229)	(230)
Earnings (loss) before income taxes	**16**	**8**	**–**	**250**	**174**	**(2)**	**422**	**446**
	(2)	–	7	129	134	(17)	246	251
Income tax recovery (expense)	**(6)**	**–**	**–**	**79**	**27**	**(9)**	**97**	**91**
	–	–	(2)	(36)	(39)	8	(67)	(69)
Earnings (loss) for the period	**10**	**8**	**–**	**329**	**201**	**(11)**	**519**	**537**
	(2)	–	5	93	95	(9)	179	182
Adjusted earnings (loss)	**10**	**8**	**–**	**116**	**74**	**(18)**	**172**	**190**
	7	–	1	104	67	(19)	152	160
Total assets [(2)]	**918**	**472**	**212**	**13,405**	**7,799**	**666**	**21,870**	**23,472**
	790	491	244	13,494	7,842	483	21,819	23,344
Capital expenditures [(3)]	**60**	**–**	**2**	**220**	**238**	**2**	**460**	**522**
	41	–	7	242	301	7	550	598

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

(2) 2018 comparatives are at December 31, 2018.

(3) Includes additions to property, plant and equipment and intangibles and \$4 million and \$9 million of interest capitalized during construction for the three and six months ended June 30, 2019 (2018 - \$5 million and \$10 million).

ADJUSTED EARNINGS

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

- the timing of revenues and expenses for rate-regulated activities,
- one-time gains and losses,
- unrealized gains and losses on mark-to-market forward commodity contracts,
- significant impairments, and
- items that are not in the normal course of business or a result of day-to-day operations.

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

The reconciliation of adjusted earnings and earnings for the three months ended June 30 is shown below.

2019 2018	Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited Electricity	Canadian Utilities Limited Pipelines & Liquids	Canadian Utilities Limited Corporate & Other	Canadian Utilities Limited Consolidated	ATCO Consolidated
Adjusted earnings (loss)	**7**	**4**	–	**55**	**23**	**(11)**	**67**	**78**
	6	–	(2)	53	14	(10)	57	61
Transaction costs	–	–	–	**(5)**	–	–	**(5)**	**(5)**
	–	–	–	–	–	–	–	–
Restructuring and other costs	–	–	–	–	–	–	–	–
	(9)	–	3	(19)	(11)	(3)	(33)	(39)
Unrealized (losses) gains on mark-to-market forward commodity contracts	–	–	–	**(3)**	–	–	**(3)**	**(3)**
	–	–	–	6	–	–	6	6
Rate-regulated activities	–	–	–	**63**	**36**	**(3)**	**96**	**96**
	–	–	1	(27)	(12)	–	(39)	(38)
IT Common Matters decision	–	–	–	**(4)**	**(4)**	–	**(8)**	**(8)**
	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
	–	–	–	–	(2)	–	(2)	(2)
Earnings (loss) attributable to Class I and Class II Shares	**7**	**4**	–	**106**	**55**	**(14)**	**147**	**158**
	(3)	–	2	13	(11)	(13)	(11)	(12)
Earnings attributable to non-controlling interests								**153**
								9
Earnings (loss) for the period								**311**
								(3)

The reconciliation of adjusted earnings and earnings for the six months ended June 30 is shown below.

2019 / 2018		Structures & Logistics	Neltume Ports	Corporate & Other	Canadian Utilities Limited: Electricity	Canadian Utilities Limited: Pipelines & Liquids	Canadian Utilities Limited: Corporate & Other	Canadian Utilities Limited: Consolidated	ATCO Consolidated
Adjusted earnings (loss)	2019	**10**	**8**	**–**	**116**	**74**	**(18)**	**172**	**190**
	2018	7	–	1	104	67	(19)	152	160
Transaction costs	2019	**–**	**–**	**–**	**(5)**	**–**	**–**	**(5)**	**(5)**
	2018	–	–	–	–	–	–	–	–
Restructuring and other costs	2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2018	(9)	–	3	(19)	(11)	(3)	(33)	(39)
Unrealized losses on mark-to-market forward commodity contracts	2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2018	–	–	–	(3)	–	–	(3)	(3)
Rate-regulated activities	2019	**–**	**–**	**–**	**61**	**34**	**(2)**	**93**	**93**
	2018	–	–	2	(34)	(7)	–	(41)	(39)
IT Common Matters decision	2019	**–**	**–**	**–**	**(4)**	**(4)**	**–**	**(8)**	**(8)**
	2018	–	–	–	–	–	–	–	–
Other	2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2018	–	–	–	–	(1)	–	(1)	(1)
Earnings (loss) attributable to Class I and Class II Shares	2019	**10**	**8**	**–**	**168**	**104**	**(20)**	**252**	**270**
	2018	(2)	–	6	48	48	(22)	74	78
Earnings attributable to non-controlling interests	2019								**267**
	2018								104
Earnings for the period	2019								**537**
	2018								182

Transaction costs

In the second quarter of 2019, the Company incurred transactions costs for the announced sales of the Canadian fossil fuel-based electricity generation portfolio and Alberta Powerline Limited Partnership (see Note 16). As these costs are related to a one-time transaction, they are excluded from adjusted earnings.

Restructuring and other costs

In the second quarter of 2018, the Company recorded restructuring and other costs of $39 million, after tax and non-controlling interests, that were not in the normal course of business. These costs mainly related to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represented long-term strategic value to the Company.

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

The Company enters into forward contracts in order to optimize available merchant capacity and manage exposure to electricity market price movements for its Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. The forward contracts are measured at fair value. Unrealized gains and losses due to changes in the fair value of the forward contracts are recognized in earnings where hedge accounting is not applied. The CODM believes that removal of the unrealized gains or losses on mark-to-market forward commodity contracts provides a better representation of operating results for the Company's Independent Power and Thermal Plants not governed by a Power Purchase Arrangement. Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas, ATCO Pipelines and ATCO Gas Australia are collectively referred to as Utilities.

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

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulator's decisions on revenues.

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

	Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1.	Additional revenues billed in current period	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2.	Revenues to be billed in future periods	Deferred income taxes, impact of warmer temperatures, and impact of inflation on rate base.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4.	Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Additional revenues billed in current period				
Future removal and site restoration costs [(1)]	**8**	11	**19**	21
Impact of colder temperatures [(2)]	**–**	–	**6**	6
Revenues to be billed in future periods				
Deferred income taxes [(3)]	**(14)**	(14)	**(29)**	(31)
Deferred income taxes due to decrease in provincial corporate income tax [(4)]	**106**	–	**106**	–
Impact of inflation on rate base [(5)]	**(2)**	–	**(2)**	–
Regulatory decisions received (see below)	**(1)**	–	**(1)**	–
Settlement of regulatory decisions and other items [(6)]	**(1)**	(35)	**(6)**	(35)
	96	(38)	**93**	(39)

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

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

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

(4) In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments from July 1, 2019 to January 1, 2022 (see Note 6). As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings for the three and six months ended June 30, 2019 by $106 million.

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

(6) In the second quarter of 2018, ATCO Electric recorded a decrease in earnings for the period of $20 million mainly related to the refund of deferral account balances for 2013 and 2014. ATCO Gas also recorded a reduction in earnings for the period of $12 million related to the refund of previously over collected transmission costs.

Regulatory decisions received

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2019 is provided below.

	Decision	Amount	Description
1.	Information Technology (IT) Common Matters	8	In August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. In 2015, the AUC commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13% and to apply a glide path that reduces pricing by 4.61% in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to June 30, 2019 of $8 million was recorded in the second quarter of 2019.
2.	ATCO Electric Transmission General Tariff Application (GTA)	(9)	In June 2017, ATCO Electric Transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision of $9 million was recorded in the second quarter of 2019.

IT Common Matters decision

As described in the IT Common Matters decision above, in August 2014, the Company sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. Proceeds of the sale were $204 million, resulting in a one-time after-tax gain of $74 million. In 2014, CU did not include this gain on sale in adjusted earnings because it was a significant one-time event.

In June 2019, the AUC issued its decision regarding the IT Common Matters proceeding which is described in the regulatory decisions received section above. In the proceeding, the Company presented a considerable amount of evidence, including expert benchmarking and price review studies, to support that the Wipro MSA rates were at fair market value. As such, there was no cross subsidization between the sale price of the Company's IT services business to Wipro in the 2014 transaction and the establishment of IT rates under the MSA. Despite these efforts the AUC found that the Alberta Utilities failed to demonstrate that the IT pricing in the MSA would result in just and reasonable rates.

Consistent with the treatment in 2014, the $8 million reduction booked in the second quarter of 2019, along with future impacts associated with this decision, will not be included in adjusted earnings.

5. REVENUES

The Company disaggregates revenues based on the revenue streams and by regulated and non-regulated business operations. The disaggregation of revenues by revenue streams by operating segment for the three months ended June 30 are shown below:

2019 2018	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other [(1)]	Total
Revenue Streams					
Sale of Goods					
Electricity generation and delivery	**–**	**112**	**–**	**–**	**112**
	–	116	–	–	116
Commodity sales	**–**	**4**	**1**	**–**	**5**
	–	3	3	–	6
Modular structures - goods	**33**	**–**	**–**	**–**	**33**
	52	–	–	–	52
Total sale of goods	**33**	**116**	**1**	**–**	**150**
	52	119	3	–	174
Rendering of Services					
Distribution services	**–**	**129**	**211**	**–**	**340**
	–	143	187	–	330
Transmission services	**–**	**168**	**73**	**–**	**241**
	–	100	65	–	165
Modular structures - services	**88**	**–**	**–**	**–**	**88**
	28	–	–	–	28
Logistics and facility operations and maintenance services	**29**	**–**	**–**	**–**	**29**
	20	–	–	–	20
Lodging and support	**26**	**–**	**–**	**–**	**26**
	16	–	–	–	16
Customer contributions	**–**	**10**	**4**	**–**	**14**
	–	10	5	–	15
Retail electricity and natural gas services	**–**	**–**	**–**	**30**	**30**
	–	–	–	27	27
Franchise fees	**–**	**9**	**46**	**–**	**55**
	–	7	39	–	46
Storage and industrial water	**–**	**–**	**5**	**–**	**5**
	–	–	5	–	5
Total rendering of services	**143**	**316**	**339**	**30**	**828**
	64	260	301	27	652
Lease income					
Finance lease	**–**	**7**	**–**	**–**	**7**
	–	8	–	–	8
Operating lease	**28**	**22**	**–**	**–**	**50**
	20	62	–	–	82
Total lease income	**28**	**29**	**–**	**–**	**57**
	20	70	–	–	90
Service concession arrangement	**–**	**42**	**–**	**–**	**42**
	–	181	–	–	181
Other	**–**	**14**	**6**	**6**	**26**
	–	5	–	1	6
Total	**204**	**517**	**346**	**36**	**1,103**
	136	635	304	28	1,103

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

The disaggregation of revenues by revenue streams by operating segment for the six months ended June 30 are shown below:

2019 2018	Structures & Logistics	Electricity	Pipelines & Liquids	Corporate & Other [1]	Total
Revenue Streams					
Sale of Goods					
Electricity generation and delivery	**–**	**276**	**–**	**–**	**276**
	–	200	–	–	200
Commodity sales	**–**	**8**	**6**	**–**	**14**
	–	8	6	–	14
Modular structures - goods	**61**	**–**	**–**	**–**	**61**
	89	–	–	–	89
Total sale of goods	**61**	**284**	**6**	**–**	**351**
	89	208	6	–	303
Rendering of Services					
Distribution services	**–**	**284**	**505**	**–**	**789**
	–	283	498	–	781
Transmission services	**–**	**337**	**139**	**–**	**476**
	–	269	129	–	398
Modular structures - services	**134**	**–**	**–**	**–**	**134**
	46	–	–	–	46
Logistics and facility operations and maintenance services	**56**	**–**	**–**	**–**	**56**
	44	–	–	–	44
Lodging and support	**40**	**–**	**–**	**–**	**40**
	32	–	–	–	32
Customer contributions	**–**	**20**	**9**	**–**	**29**
	–	19	9	–	28
Retail electricity and natural gas services	**–**	**–**	**–**	**86**	**86**
	–	–	–	54	54
Franchise fees	**–**	**17**	**112**	**–**	**129**
	–	15	110	–	125
Storage and industrial water	**–**	**–**	**12**	**–**	**12**
	–	–	19	–	19
Total rendering of services	**230**	**658**	**777**	**86**	**1,751**
	122	586	765	54	1,527
Lease income					
Finance lease	**–**	**16**	**–**	**–**	**16**
	–	17	–	–	17
Operating lease	**51**	**43**	**–**	**–**	**94**
	39	121	–	–	160
Total lease income	**51**	**59**	**–**	**–**	**110**
	39	138	–	–	177
Service concession arrangement	**–**	**168**	**–**	**–**	**168**
	–	580	–	–	580
Other	**–**	**29**	**11**	**7**	**47**
	1	11	1	3	16
Total	**342**	**1,198**	**794**	**93**	**2,427**
	251	1,523	772	57	2,603

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

Disaggregation of revenues by rate-regulated and non-rate-regulated business operations is shown below:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Rate-regulated business operations				
Rate-regulated Electricity				
Electricity Distribution	**151**	158	**330**	314
Electricity Transmission	**175**	103	**350**	274
	326	261	**680**	588
Rate-regulated Pipelines & liquids				
Natural Gas Distribution	**218**	182	**556**	532
Natural Gas Transmission	**75**	66	**143**	132
International Natural Gas Distribution	**39**	44	**74**	82
	332	292	**773**	746
Total Rate-regulated business operations	**658**	553	**1,453**	1,334
Non-rate-regulated business operations				
Non-rate-regulated Electricity				
Independent Power Plants	**12**	104	**166**	178
Thermal PPA Plants	**132**	82	**174**	165
International Power Generation	**4**	5	**9**	10
Alberta PowerLine	**42**	181	**168**	580
	190	372	**517**	933
Non-rate-regulated Pipelines & liquids				
Storage and Industrial Water	**5**	5	**12**	19
	5	5	**12**	19
Other non-rate-regulated business operations				
Modular Structures	**149**	100	**246**	174
Lodging and Support	**26**	16	**40**	32
Logistics and Facility Operations and Maintenance	**29**	20	**56**	44
Retail Electricity and Natural Gas Services	**30**	27	**86**	54
Other	**16**	10	**17**	13
	250	173	**445**	317
Total Non-rate-regulated business operations	**445**	550	**974**	1,269
Total	**1,103**	1,103	**2,427**	2,603

6. INCOME TAXES

On May 28, 2019, the Alberta government passed Bill 3, the Job Creation Tax Cut, which will reduce the Alberta provincial corporate tax rate from 12 per cent to 8 per cent in a phased approach between July 1, 2019 and January 1, 2022.

As a result of this change, the Company made an adjustment to current and deferred income taxes of $1 million and $210 million, respectively, which was recorded in the second quarter of 2019.

As the tax rate change came into effect on July 1, 2019, the combined federal and Alberta statutory Canadian income tax rate for 2019 is 26.5 per cent. Prior to the change, the combined federal and Alberta statutory Canadian income tax rate for 2019 was 27.0 per cent.

7. EARNINGS PER SHARE

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Average shares				
Weighted average shares outstanding	**114,351,995**	114,414,569	**114,337,423**	114,384,105
Effect of dilutive stock options	**161,906**	50,249	**72,395**	58,236
Effect of dilutive MTIP	**321,924**	357,159	**330,129**	345,766
Weighted average dilutive shares outstanding	**114,835,825**	114,821,977	**114,739,947**	114,788,107
Earnings (loss) for earnings per share calculation				
Earnings (loss) for the period	**311**	(3)	**537**	182
Non-controlling interests	**(153)**	(9)	**(267)**	(104)
Earnings (loss) attributable to Class I and Class II Shares	**158**	(12)	**270**	78
Earnings (loss) and diluted earnings (loss) per Class I and Class II Share				
Earnings (loss) per Class I and Class II Share	**$1.38**	$(0.10)	**$2.36**	$0.68
Diluted (loss) earnings per Class I and Class II Share	**$1.37**	$(0.10)	**$2.35**	$0.68

8. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission & Distribution	Electricity Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2018	19,315	1,950	1,007	670	1,683	24,625
Additions	**13**	**46**	**1**	**464**	**15**	**539**
Transfers	**362**	**5**	**–**	**(398)**	**31**	**–**
Retirements and disposals	**(21)**	**(27)**	**(2)**	**–**	**(17)**	**(67)**
Reclassification to assets held for sale (*Note 16*)	**–**	**(1,801)**	**(13)**	**(21)**	**(21)**	**(1,856)**
Foreign exchange rate adjustment	**(68)**	**–**	**(2)**	**(6)**	**(19)**	**(95)**
June 30, 2019	**19,601**	**173**	**991**	**709**	**1,672**	**23,146**
Accumulated depreciation						
December 31, 2018	4,384	1,338	201	83	754	6,760
Depreciation	**229**	**24**	**11**	**–**	**36**	**300**
Retirements and disposals	**(21)**	**(18)**	**(2)**	**–**	**(14)**	**(55)**
Reclassification to assets held for sale (*Note 16*)	**–**	**(1,335)**	**–**	**–**	**(13)**	**(1,348)**
Foreign exchange rate adjustment	**(12)**	**–**	**1**	**(3)**	**(6)**	**(20)**
June 30, 2019	**4,580**	**9**	**211**	**80**	**757**	**5,637**
Net book value						
December 31, 2018	14,931	612	806	587	929	17,865
June 30, 2019	**15,021**	**164**	**780**	**629**	**915**	**17,509**

The additions to property, plant and equipment included $9 million of interest capitalized during construction for the six months ended June 30, 2019 (2018 - $10 million).

9. RIGHT-OF-USE ASSETS

The Company's right-of-use assets mainly relate to the lease of land and buildings.

	Note	Land and Buildings
Cost		
January 1, 2019, on adoption of IFRS 16	3	107
Additions		**3**
Foreign exchange rate adjustment		**(1)**
June 30, 2019		**109**
Accumulated depreciation		
January 1, 2019, on adoption of IFRS 16	3	–
Depreciation		**9**
June 30, 2019		**9**
Net book value		
January 1, 2019, on adoption of IFRS 16	3	107
June 30, 2019		**100**

10. SHORT-TERM DEBT

At June 30, 2019, the Company had $550 million of commercial paper outstanding at a weighted average effective interest rate of 1.95 per cent, maturing in July 2019 (December 31, 2018 - $175 million of commercial paper outstanding at a weighted average effective interest rate of 2.25 per cent, matured in January 2019).

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

11. LONG-TERM DEBT

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

12. LEASE LIABILITIES

The Company has recognized lease liabilities in relation to the arrangements to lease land and buildings. The reconciliation of movements in lease liabilities is as follows:

	Note	
January 1, 2019, on adoption of IFRS 16	3	107
Additions		**3**
Interest expense		**1**
Lease payments		**(9)**
Foreign exchange rate adjustment		**(1)**
		101
Less: amounts due within one year		**(16)**
June 30, 2019		**85**

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

In one year or less	**20**
In more than one year, but not more than five years	**60**
In more than five years	**41**
	121

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

	Three months ended June 30, 2019	Six months ended June 30, 2019
Short-term leases	**2**	**4**
Low-value leases	**2**	**3**
	4	**7**

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

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

At June 30, 2019, there were 101,456,831 (December 31, 2018 - 101,428,881) Class I Shares and 13,218,247 (December 31, 2018 - 13,231,247) Class II Shares outstanding. In addition, there were 682,250 options to purchase Class I Shares outstanding at June 30, 2019, under the Company's stock option plan.

DIVIDENDS

The Company declared and paid cash dividends of $0.4048 and $0.8096 per Class I and Class II Share during the three and six months ended June 30, 2019 (2018 - $0.3766 and $0.7532). The Company’s policy is to pay dividends quarterly on its Class I and Class II Shares. The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On July 11, 2019, the Company declared a third quarter dividend of $0.4048 per Class I and Class II Share.

NORMAL COURSE ISSUER BID

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

No shares were purchased during the three and six months ended June 30, 2019 and June 30, 2018.

14. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

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

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Depreciation and amortization	**167**	198	**334**	358
Earnings from investment in associate company	**(4)**	–	**(8)**	–
Dividends received from associate company	–	–	**12**	–
Earnings from investment in joint ventures, net of dividends and distributions received	**1**	1	**1**	(1)
Income tax (recovery) expense	**(175)**	5	**(91)**	69
Unearned availability incentives	**6**	1	**6**	(4)
Unrealized losses (gains) on mark-to-market forward commodity contracts	**7**	(16)	**(1)**	8
Contributions by customers for extensions to plant	**11**	25	**36**	48
Amortization of customer contributions	**(14)**	(15)	**(29)**	(28)
Net finance costs	**124**	116	**247**	230
Income taxes paid	**(31)**	(23)	**(65)**	(38)
Other	**30**	28	**33**	34
	122	320	**475**	676

CASH POSITION

Cash position in the consolidated statement of cash flow at June 30 is comprised of:

	2019	2018
Cash	**606**	198
Short-term investments	**4**	–
Restricted cash [(1)]	**75**	57
Cash and cash equivalents [(2)]	**685**	255
Bank indebtedness	**(4)**	(4)
	681	251

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

(2) Includes $141 million of cash and cash equivalents classified as assets held for sale (see Note 16).

15. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash and cash equivalents, accounts receivable and contract assets, restricted project funds, bank indebtedness, accounts payable and accrued liabilities and short-term debt.	Assumed to approximate carrying value due to their short-term nature.
Finance lease receivables and receivable under service concession arrangement.	Determined using a risk-adjusted interest rate to discount future cash receipts (Level 2).
Long-term debt and non-recourse long-term debt.	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
Measured at Fair Value	
Interest rate swaps	Determined using interest rate yield curves at period-end (Level 2).
Foreign currency contracts	Determined using quoted forward exchange rates at period-end (Level 2).
Commodity contracts	Determined using observable period-end forward curves, 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	June 30, 2019 Carrying Value	June 30, 2019 Fair Value	December 31, 2018 Carrying Value	December 31, 2018 Fair Value
Financial Assets				
Finance lease receivables	**184**	**245**	395	487
Receivable under service concession arrangement [(1)]	–	–	1,396	1,396
Financial Liabilities				
Long-term debt	**9,157**	**10,839**	9,397	10,042
Non-recourse long-term debt [(1)]	–	–	1,401	1,474

(1) Reclassified as assets and liabilities held for sale (Note 16).

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At June 30, 2019, the following derivative instruments were outstanding:

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

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

	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
June 30, 2019					
Financial Assets					
Prepaid expenses and other current assets	–	–	–	**3**	**3**
Financial Liabilities					
Other current liabilities [(1)]	**5**	**14**	**21**	–	**40**
Other liabilities [(1)]	**5**	**6**	**14**	–	**25**
December 31, 2018					
Financial Assets					
Prepaid expenses and other current assets	1	2	–	2	5
Other assets	1	2	4	–	7
Financial Liabilities					
Other current liabilities	–	15	34	4	53
Other liabilities	4	8	27	–	39

(1) At June 30, 2019, the Company paid a total of $39 million of cash collateral to third parties on commodity forward positions related to future periods (December 31, 2018 - $18 million). The contracts held with these third parties have an enforceable master netting arrangement, which allows the right to offset.

Notional and maturity summary

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

	Subject to Hedge Accounting			Not Subject to Hedge Accounting		
Notional value and maturity	**Interest Rate Swaps**	**Natural Gas (1)**	**Power (2)**	**Natural Gas (1)**	**Power (2)**	**Foreign Currency Forward Contracts**
June 30, 2019						
Purchases (3)	–	**8,619,000**		**28,988,000**	**2,237,565**	–
Sales (3)	–	–	**748,640**	**3,039,700**	**5,814,835**	–
Currency						
Canadian dollars	**98**	–	–	–	–	–
Australian dollars	**741**	–	–	–	–	–
Mexican pesos	**570**	–	–	–	–	**100**
U.S. dollars	–	–	–	–	–	**46**
Maturity	**2019-2028**	**2019-2021**	**2019-2020**	**2019-2021**	**2019-2021**	**2019**
December 31, 2018						
Purchases (3)	–	12,545,000	–	58,518,200	3,254,650	–
Sales (3)	–	–	1,193,640	7,740,700	7,574,926	–
Currency						
Canadian dollars	100	–	–	–	–	–
Australian dollars	744	–	–	–	–	–
Mexican pesos	570	–	–	–	–	140
U.S. dollars	–	–	–	–	–	46
British pounds	–	–	–	–	–	74
Maturity	2019-2028	2019-2021	2019-2020	2019-2022	2019-2021	2019

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

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

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

16. DISPOSAL GROUPS AND ASSETS CLASSIFIED AS HELD FOR SALE

Canadian fossil fuel-based electricity generation portfolio

On May 27, 2019, the Company announced that its subsidiary, ATCO Power Canada Ltd., had entered into agreements to sell its entire Canadian fossil fuel-based electricity generation portfolio (Electricity generation disposal group) for the aggregate proceeds of approximately $835 million.

An agreement with Heartland Generation Ltd., an affiliate of Energy Capital Partners, includes 10 partly or fully owned natural gas-fired and coal-fired electricity generation assets located in Alberta, British Columbia, and Ontario.

In two other separate transactions, ATCO Power Canada Ltd. entered into agreements to sell its 50 per cent ownership interest in the Cory Cogeneration Station to SaskPower International and its 50 per cent ownership interest in Brighton Beach Power to Ontario Power Generation.

The Cory Cogeneration Station transaction closed in July 2019. The remaining sale transactions are expected to close before December 31, 2019, subject to the receipt of regulatory approvals and the satisfaction of other customary closing conditions.

Alberta PowerLine

On June 24, 2019, the Company announced that it had entered into agreements to sell its entire ownership interest in Alberta PowerLine (APL disposal group), a partnership between the Company and Quanta Services Inc., for the aggregate proceeds of approximately $300 million and the assumption of approximately $1.4 billion of debt, excluding deferred financing charges.

The transaction is expected to close before December 31, 2019, subject to the receipt of regulatory approvals and the satisfaction of other customary closing conditions.

Assets and liabilities of disposal groups classified as held for sale

The Company has classified the assets and liabilities of the above-mentioned disposal groups as assets held for sale. These assets and liabilities are reported in the Electricity operating segment.

Assets and liabilities of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction. They are measured at the lower of their carrying value and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits and financial assets and liabilities that are carried at fair value.

Assets held for sale are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

The major classes of assets and liabilities of the disposal groups as at June 30, 2019 are as follows:

		Reclassification of assets and liabilities of disposal groups			
(millions of Canadian Dollars)	Assets and liabilities before reclassification	Electricity generation disposal group	APL disposal group	Total	Assets and liabilities after reclassification
ASSETS					
Current assets					
Cash and cash equivalents	685	141	–	**141**	544
Accounts receivable and contract assets	686	68	4	**72**	614
Finance lease receivables	19	11	–	**11**	8
Restricted project funds	235	–	235	**235**	–
Receivable under service concession arrangement	109	–	109	**109**	–
Prepaid expenses and other current assets	118	40	–	**40**	78
		260	348	**608**	
Non-current assets					
Property, plant and equipment	18,017	508	–	**508**	17,509
Intangibles	671	18	–	**18**	653
Investment in joint ventures	227	35	–	**35**	192
Finance lease receivables	383	207	–	**207**	176
Deferred income tax assets	65	12	–	**12**	53
Receivable under service concession arrangement	1,425	–	1,425	**1,425**	–
Other assets	92	23	–	**23**	69
Assets of disposal groups classified as held for sale		1,063	1,773	**2,836**	
LIABILITIES					
Current liabilities					
Accounts payable, accrued liabilities and other current liabilities	826	106	146	**252**	574
Non-recourse long-term debt	30	15	15	**30**	–
		121	161	**282**	
Non-current liabilities					
Deferred income tax liabilities	1,215	23	51	**74**	1,141
Customer contributions	1,807	112	–	**112**	1,695
Other liabilities	303	148	60	**208**	95
Non-recourse long-term debt	1,364	45	1,319	**1,364**	–
Liabilities of disposal groups classified as held for sale		449	1,591	**2,040**	
Net assets of disposal groups classified as held for sale		614	182	**796**	