



An **ATCO** Company

CU INC.
CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the consolidated financial statements of CU Inc. (the Company) in accordance with International Financial Reporting Standards, which include amounts based on estimates and judgments. Management is also responsible for the preparation of the Management's Discussion and Analysis and ensures that it is consistent with the consolidated financial statements.

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

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

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

[Original signed by N.C. Southern]

Chair & Chief Executive Officer

[Original signed by B.P. Shkrobot]

Executive Vice President & Chief Financial Officer

February 28, 2024



Independent auditor's report

To the Share Owner of CU Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of CU Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of earnings for the years ended December 31, 2023 and 2022;
- the consolidated statements of comprehensive income for the years ended December 31, 2023 and 2022;
- the consolidated balance sheets as at December 31, 2023 and 2022;
- the consolidated statements of changes in equity for the years ended December 31, 2023 and 2022;
- the consolidated statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of unbilled revenue related to the Electricity and Natural Gas segments</p> <p><i>Refer to note 4 – Revenues and note 21 – Material judgments, estimates and assumptions to the consolidated financial statements.</i></p> <p>The Company had \$112 million of unbilled revenue related to the Electricity and Natural Gas segments as at December 31, 2023.</p> <p>The revenue recognized by the Company from the regulated distribution of natural gas and electricity includes an estimate of consumption by customers that has not yet been billed (unbilled revenue).</p> <p>The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is based on historical consumption patterns. Management applies judgment to the measurement and value of the estimated consumption.</p> <p>We considered this a key audit matter due to (i) the significance of the unbilled revenue, (ii) the judgment applied by management to estimate the consumption and (iii) the significant auditor effort in performing procedures to test the estimated amount of unbilled revenue.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Tested the reasonableness of the estimate of unbilled revenue through evidence obtained from events occurring up to the date of the auditor's report, which included the following:<ul style="list-style-type: none">– Tested a sample of billings made after December 31, 2023 and compared the relevant amounts of these billings to the corresponding estimate of unbilled revenue recorded.– Agreed the pricing applied to a sample of billings to externally published rates.• Tested the operating effectiveness of internal controls relating to unbilled revenue, including information technology (IT) general controls of the relevant IT systems that management uses for billings.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Courtney Kolla.

[Original signed by "PricewaterhouseCoopers LLP"]

Chartered Professional Accountants

Calgary, Alberta
February 28, 2024

CONSOLIDATED STATEMENTS OF EARNINGS

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2023	2022
Revenues	4	2,931	3,151
Costs and expenses			
Salaries, wages and benefits		(218)	(223)
Energy transmission and transportation		(286)	(269)
Plant and equipment maintenance		(202)	(196)
Fuel costs		(14)	(14)
Purchased power		(57)	(67)
Depreciation, amortization and impairment	9, 10, 14	(607)	(559)
Franchise fees		(290)	(328)
Property and other taxes		(69)	(67)
Other	5	(282)	(272)
		(2,025)	(1,995)
Operating profit		906	1,156
Interest income		5	5
Interest expense	6	(366)	(364)
Net finance costs		(361)	(359)
Earnings before income taxes		545	797
Income tax expense	7	(118)	(193)
Earnings for the year		427	604

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31 2023	2022
Earnings for the year		427	604
Other comprehensive (loss) income, net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits ⁽¹⁾	12	(6)	32
Comprehensive income for the year		421	636

(1) Net of income taxes of \$3 million for the year ended December 31, 2023 (2022 - \$(9) million).

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

		December 31	
<i>(millions of Canadian Dollars)</i>	Note	2023	2022
ASSETS			
Current assets			
Cash	17	36	7
Accounts receivable and contract assets	13	511	531
Trade accounts receivable from parent and affiliate companies	13, 26	17	6
Inventories	8	21	17
Prepaid expenses and other current assets		31	15
		616	576
Non-current assets			
Property, plant and equipment	9	17,003	16,533
Intangibles	10	800	755
Right-of-use assets	14	18	15
Investment in joint venture	3, 23	14	17
Other assets		49	54
Total assets		18,500	17,950
LIABILITIES			
Current liabilities			
Short-term advances from parent company	17, 26	107	19
Accounts payable and accrued liabilities		535	588
Accounts payable to parent and affiliate companies	26	34	57
Lease liabilities	14	1	1
Provisions and other current liabilities		-	61
Long-term debt	11	120	100
		797	826
Non-current liabilities			
Deferred income tax liabilities	7	1,783	1,659
Retirement benefit obligations	12	125	115
Customer contributions	13	1,968	1,911
Lease liabilities	14	16	14
Other liabilities		27	11
Long-term debt	11	8,605	8,385
Total liabilities		13,321	12,921
EQUITY			
Equity preferred shares	15	187	187
Class A and Class B share owner's equity			
Class A and Class B shares	16	1,056	1,056
Retained earnings		3,936	3,786
		4,992	4,842
Total equity		5,179	5,029
Total liabilities and equity		18,500	17,950

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]

DIRECTOR

[Original signed by L.M. Charlton]

DIRECTOR

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2021		1,056	187	3,651	–	4,894
Earnings for the year		–	–	604	–	604
Other comprehensive income		–	–	–	32	32
Gains on retirement benefits transferred to retained earnings		–	–	32	(32)	–
Dividends	15, 16	–	–	(501)	–	(501)
December 31, 2022		1,056	187	3,786	–	5,029
Earnings for the year		–	–	427	–	427
Other comprehensive loss		–	–	–	(6)	(6)
Loss on retirement benefits transferred to retained earnings		–	–	(6)	6	–
Dividends	15, 16	–	–	(271)	–	(271)
December 31, 2023		1,056	187	3,936	–	5,179

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2023	2022
Operating activities			
Earnings for the year		427	604
Adjustments to reconcile earnings to cash flows from operating activities	17	1,144	1,214
Changes in non-cash working capital	17	(95)	–
Cash flows from operating activities		1,476	1,818
Investing activities			
Additions to property, plant and equipment		(995)	(898)
Proceeds on disposal of property, plant and equipment		3	–
Additions to intangibles		(120)	(128)
Proceeds on sale of ownership interest in a subsidiary company, net of cash disposed	3	–	8
Changes in non-cash working capital	17	(41)	67
Other	9	17	60
Cash flows used in investing activities		(1,136)	(891)
Financing activities			
Net repayment of short-term debt	17	–	(206)
Issue of long-term debt	11	340	210
Repayment of long-term debt	11	(100)	(125)
Repayment of lease liabilities	14	(2)	(2)
Dividends paid on equity preferred shares	15	(7)	(7)
Dividends paid to Class A and Class B share owner	16	(264)	(494)
Interest paid		(363)	(364)
Other		(3)	(3)
Cash flows used in financing activities		(399)	(991)
Decrease in cash position		(59)	(64)
Beginning of year		(12)	52
End of year	17	(71)	(12)

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

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

1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are 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. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

- Electricity (electricity transmission and distribution); and
- Natural gas (natural gas transmission and distribution).

The consolidated financial statements include the accounts of CU Inc., its subsidiaries (see Note 22) and a proportionate share of the Company's investment in joint venture (see Note 23). In these financial statements, "the Company" means CU Inc., its subsidiaries and joint venture.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IFRS Accounting Standards).

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 28, 2024.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's material accounting policies are described in Note 27.

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF JUDGMENTS AND ESTIMATES

Management makes judgments and estimates that could materially affect how policies are applied, how amounts in the consolidated financial statements are reported, and how contingent assets and liabilities are disclosed. Most often these judgments and estimates concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The material judgments, estimates and assumptions are described in Note 21.

3. SEGMENTED INFORMATION

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

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

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

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

Electricity	The Electricity segment includes ATCO Electric Transmission and ATCO Electric Distribution. These businesses provide regulated electricity transmission, distribution and related infrastructure solutions in northern and central east Alberta, the Yukon, the Northwest Territories and in the Lloydminster area of Saskatchewan.
Natural Gas	The Natural Gas segment includes ATCO Gas and ATCO Pipelines. These businesses provide integrated natural gas transmission, distribution and related infrastructure development throughout Alberta and in the Lloydminster area of Saskatchewan.

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

	2023	2022	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external			1,390	1,541	-	-	2,931
			1,460	1,691	-	-	3,151
Revenues - intersegment			7	1	-	(8)	-
			4	1	-	(5)	-
Revenues			1,397	1,542	-	(8)	2,931
			1,464	1,692	-	(5)	3,151
Operating expenses ⁽¹⁾			(532)	(894)	-	8	(1,418)
			(541)	(897)	(3)	5	(1,436)
Depreciation, amortization and impairment			(338)	(269)	-	-	(607)
			(320)	(239)	-	-	(559)
Net finance costs			(226)	(134)	(1)	-	(361)
			(222)	(134)	(3)	-	(359)
Earnings (loss) before income taxes			301	245	(1)	-	545
			381	422	(6)	-	797
Income tax (expense) recovery			(62)	(56)	-	-	(118)
			(97)	(98)	2	-	(193)
Earnings (loss) for the year			239	189	(1)	-	427
			284	324	(4)	-	604
Adjusted earnings (loss)			312	211	(1)	-	522
			326	246	(4)	-	568
Total assets			10,875	7,630	87	(92)	18,500
			10,516	7,451	66	(83)	17,950
Capital expenditures ⁽²⁾			630	500	-	-	1,130
			566	472	-	-	1,038

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

(2) Includes additions to property, plant and equipment, intangibles and \$15 million of interest capitalized during construction for the year ended December 31, 2023 (2022 - \$12 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings for the year after adjusting for:

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

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

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

2023					
2022	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings (loss)	312	211	(1)	–	522
	326	246	(4)	–	568
Transition of managed IT services	(1)	(1)	–	–	(2)
	–	–	–	–	–
Rate-regulated activities	(45)	7	–	–	(38)
	(12)	86	–	–	74
IT Common Matters decision	(11)	(9)	–	–	(20)
	(9)	(6)	–	–	(15)
Impairments	(20)	(22)	–	–	(42)
	–	–	–	–	–
AUC enforcement proceeding	–	–	–	–	–
	(27)	–	–	–	(27)
Workplace COVID-19 vaccination standard	–	–	–	–	–
	(3)	(5)	–	–	(8)
Gain on sale of ownership interest in a subsidiary company	–	–	–	–	–
	5	–	–	–	5
Dividends on equity preferred shares of the Company	4	3	–	–	7
	4	3	–	–	7
Earnings (loss) for the year	239	189	(1)	–	427
	284	324	(4)	–	604

Transition of managed IT services

For the year ended December 31, 2023, the Company recognized additional legal and other costs of \$2 million (after tax) related to the Wipro Ltd. master service agreements matter that was concluded on February 26, 2023. The impact was recorded in other expenses in the consolidated statements of earnings, provisions and other current liabilities in the consolidated balance sheets, and in changes in non-cash working capital (operating activities) in the consolidated statements of cash flows. As these costs are not in the normal course of business, they have been excluded from adjusted earnings.

Rate-regulated activities

ATCO Electric Transmission, ATCO Electric Distribution, ATCO Electric Yukon, Northland Utilities (NWT), Northland Utilities (Yellowknife), ATCO Gas and ATCO Pipelines are collectively referred to as the Utilities.

There is currently no specific guidance under IFRS Accounting Standards 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 Accounting Standards in the following ways:

Timing Adjustment	Items	RRA Treatment	IFRS Accounting Standards Treatment
1. Additional revenues billed in current year	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 years	Deferred income taxes and impact of warmer temperatures.	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 years.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior years 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 Accounting Standards.
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.

For the year ended December 31, the significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS Accounting Standards are as follows:

	2023	2022
<i>Additional revenues billed in current year</i>		
Future removal and site restoration costs ⁽¹⁾	118	114
Impact of colder temperatures ⁽²⁾	-	3
<i>Revenues to be billed in future years</i>		
Deferred income taxes ⁽³⁾	(149)	(103)
Impact of warmer temperatures ⁽²⁾	(33)	-
<i>Settlement of regulatory decisions and other items</i>		
Distribution rate relief ⁽⁴⁾	18	104
Other ⁽⁵⁾	8	(44)
	(38)	74

(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 years.

(2) ATCO Gas Distribution's 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 temperatures in the current year are refunded to or recovered from customers in future years.

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

(4) In 2021, in response to the ongoing COVID-19 Pandemic, ATCO Electric Distribution and ATCO Gas Distribution applied and received approval from the AUC for interim rate relief for customers to hold current distribution base rates in place. Based on direction from the AUC, collection of 2021 deferred rate amounts commenced in 2022 and for the year ended December 31, 2023, \$18 million (after-tax) (2022 - \$104 million (after-tax)) was billed to customers.

(5) In 2022, ATCO Electric Distribution recorded a decrease in earnings of \$18 million (after-tax) related to payments of electricity transmission costs, and ATCO Gas Distribution recorded a decrease in earnings of \$15 million (after-tax) related to payments of gas pipeline system load balancing costs.

IT Common Matters decision

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings in the year ended December 31, 2023 was \$20 million (after-tax) (2022 - \$15 million (after-tax)).

Impairment of utility assets

For the year ended December 31, 2023, impairments of \$42 million (after-tax) were recognized, relating to assets that no longer represent value to the Company.

Of these impairments, \$33 million (after-tax) relates to impairments of certain computer software assets which are not expected to be used in the business (see Note 10) and \$8 million (after-tax) relates to certain electricity generation assets in ATCO Electric Transmission which had been removed from service (see Note 9). As the impairments are not in the normal course of business, the charges were excluded from adjusted earnings.

Alberta Utilities Commission (AUC) enforcement proceeding

In 2022, the Company recognized costs of \$27 million (after-tax) related to an AUC enforcement proceeding. As this proceeding was not in the normal course of business, these costs have been excluded from adjusted earnings.

Workplace COVID-19 vaccination standard

To safeguard the health and safety of employees, business partners, customers and communities, the Company required its employees, subject to certain exemptions, to be vaccinated against COVID-19 effective January 1, 2022. Employees who did not demonstrate they were vaccinated or did not have an approved exemption were placed on unpaid leave. These employees were subsequently offered severance and in 2022, the Company incurred \$8 million (after-tax) related to amounts paid and accrued. As these costs were not in the normal course of business and were a one-time item, they have been excluded from adjusted earnings.

Gain on sale of ownership interest in a subsidiary company

On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in Northland Utilities Enterprises Ltd. (NUE) from 14 per cent to 50 per cent. NUE is an electric utility company operating in the Northwest Territories, Canada and was a subsidiary of ATCO Electric Ltd. The change in ownership interest was accomplished through the Company's sale to DII of a 36 per

cent ownership interest in NUE for proceeds, net of cash disposed, of \$8 million. The transaction resulted in the Company and DII each having a 50 per cent ownership interest in NUE. The sale of ownership interest resulted in a gain on sale of \$5 million (after-tax). As the gain on sale was not in the normal course of business, it was excluded from adjusted earnings.

4. REVENUES

The Company disaggregates revenues based on the nature of revenue streams. The disaggregation of revenues by each operating segment for the year ended December 31 is shown below:

2023			
2022	Electricity ⁽¹⁾	Natural Gas ⁽¹⁾	Total
Revenue Streams			
Rendering of Services			
Distribution services	622	907	1,529
	609	1,029	1,638
Transmission services	637	347	984
	724	337	1,061
Customer contributions	34	22	56
	33	21	54
Franchise fees	37	253	290
	36	292	328
Total rendering of services	1,330	1,529	2,859
	1,402	1,679	3,081
Other	60	12	72
	58	12	70
Total	1,390	1,541	2,931
	1,460	1,691	3,151

(1) For the year ended December 31, 2023, Electricity and Natural Gas segments include \$112 million of unbilled revenue (2022 - \$162 million). At December 31, 2023, \$112 million of the unbilled revenue is included in accounts receivable and contract assets (2022 - \$162 million).

5. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, utilities, goods and services such as professional fees, contractor costs, technology-related expenses, advertising, and other general and administrative expenses. For the year ended December 31, 2022, other costs and expenses included expenses related to the AUC Enforcement proceeding of \$28 million and gain on sale of ownership interest in a subsidiary company of \$7 million.

6. INTEREST EXPENSE

Interest expense primarily arises from interest on long-term debentures. The components of interest expense for the year ended December 31 are summarized below:

	2023	2022
Long-term debt	366	363
Retirement benefits interest expense	6	6
Amortization of deferred financing charges	3	2
Other	6	5
	381	376
Less: interest capitalized (<i>Notes 9, 10</i>)	(15)	(12)
	366	364

Borrowing costs capitalized to property, plant and equipment and intangibles during 2023 were calculated by applying a weighted average interest rate of 4.32 per cent (2022 - 4.41 per cent) to expenditures on qualifying assets.

7. INCOME TAXES

INCOME TAX EXPENSE

The income tax rate for 2023 is 23.0 per cent (2022 - 23.0 per cent).

The components of income tax expense for the year ended December 31 are summarized below.

	2023	2022
Current income tax (recovery) expense		
Expense for the year	–	26
Adjustment in respect of prior years	(8)	(3)
	(8)	23
Deferred income tax expense		
Reversal of temporary differences	127	168
Adjustment in respect of prior years	(1)	2
	126	170
	118	193

The reconciliation of statutory and effective income tax expense for the year ended December 31 is as follows:

	2023		2022	
Earnings before income taxes	545	%	797	%
Income taxes, at statutory rates	126	23.0	183	23.0
Non-deductible items	–	–	6	0.7
Investment tax credit	(2)	(0.4)	–	–
Previously unrecognized deferred income tax assets	(3)	(0.2)	–	–
Other	(3)	(0.2)	4	0.5
	118	22.2	193	24.2

INCOME TAX ASSETS AND LIABILITIES

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

Balance Sheet Presentation		2023	2022
Income tax assets			
Current	Prepaid expenses and other current assets	12	–
Deferred	Other assets	2	1
Income tax liabilities			
Current	Provisions and other current liabilities	–	9
Deferred	Deferred income tax liabilities	1,783	1,659

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2021	1,501	91	(2)	(50)	(34)	(22)	1,484
Charge (credit) to earnings	116	18	2	11	(1)	24	170
Charge to other comprehensive income	–	–	–	–	9	–	9
Other	(6)	–	–	–	–	2	(4)
December 31, 2022	1,611	109	–	(39)	(26)	4	1,659
Charge (credit) to earnings	149	8	2	(41)	(1)	9	126
Credit to other comprehensive income	–	–	–	–	(3)	–	(3)
Other	–	–	–	(2)	1	2	1
December 31, 2023	1,760	117	2	(82)	(29)	15	1,783

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

At December 31, 2023, the Company had \$339 million of non-capital tax losses and credits which expire between 2035 and 2043. The Company recognized deferred income tax assets of \$82 million for these losses and credits. The Company had \$2 million of aggregated temporary differences for which deferred income tax assets were not recognized (2022 - nil).

8. INVENTORIES

Inventories at December 31 are comprised of:

	2023	2022
Natural gas and fuel in storage	14	12
Raw materials and consumables	7	5
	21	17

For the year ended December 31, 2023, inventories of \$2 million were used in operations and recognized in costs and expenses in the consolidated statement of earnings (2022 - \$1 million).

9. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in- Progress	Other	Total
Cost					
December 31, 2021	20,270	616	324	677	21,887
Additions	-	-	918	-	918
Transfers	687	14	(744)	43	-
Retirements and disposals	(123)	(2)	(7)	(25)	(157)
Sale of ownership interest in a subsidiary company (Note 3)	(111)	(8)	(2)	(5)	(126)
December 31, 2022	20,723	620	489	690	22,522
Additions	-	-	1,021	-	1,021
Transfers	1,091	11	(1,142)	40	-
Retirements and disposals	(105)	(7)	-	(33)	(145)
December 31, 2023	21,709	624	368	697	23,398
Accumulated depreciation					
December 31, 2021	5,158	171	-	341	5,670
Depreciation	457	16	-	42	515
Retirements and disposals	(112)	(2)	-	(25)	(139)
Sale of ownership interest in a subsidiary company (Note 3)	(52)	(3)	-	(2)	(57)
December 31, 2022	5,451	182	-	356	5,989
Depreciation and impairment	482	16	-	43	541
Retirements and disposals	(100)	(7)	-	(28)	(135)
December 31, 2023	5,833	191	-	371	6,395
Net book value					
December 31, 2022	15,272	438	489	334	16,533
December 31, 2023	15,876	433	368	326	17,003

The additions to property, plant and equipment included \$9 million of interest capitalized during construction for the year ended December 31, 2023 (2022 - \$7 million).

PIONEER NATURAL GAS PIPELINE

On February 25, 2022, ATCO Gas and Pipelines Ltd., a wholly owned subsidiary of the Company, closed a transaction to transfer a 30 kilometer segment of the Pioneer Natural Gas Pipeline to Nova Gas Transmission Ltd. for \$63 million. The proceeds from sale are included in other investing activities in the consolidated statements of cash flows.

IMPAIRMENT

In 2023, the Company recognized an impairment of \$8 million related to certain electricity generation assets in ATCO Electric Transmission. These assets had been removed from service and it was determined that they no longer had any remaining value. The assets were derecognized from property, plant and equipment on the consolidated balance sheet and the impairment was charged to depreciation, amortization and impairment expense in the consolidated statement of earnings.

10. INTANGIBLES

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

	Computer Software	Land Rights	Work-in-Progress	Other	Total
Cost					
December 31, 2021	330	431	129	9	899
Additions	-	-	133	-	133
Transfers	72	20	(90)	(2)	-
Retirements	(37)	-	-	-	(37)
Sale of ownership interest in subsidiary company (Note 3)	(1)	(1)	(4)	-	(6)
December 31, 2022	364	450	168	7	989
Additions	-	-	126	-	126
Transfers	41	18	(59)	-	-
Retirements	(42)	-	(33)	(1)	(76)
December 31, 2023	363	468	202	6	1,039
Accumulated amortization					
December 31, 2021	156	65	-	4	225
Amortization	41	5	-	-	46
Retirements	(37)	-	-	-	(37)
December 31, 2022	160	70	-	4	234
Amortization and impairment	42	6	33	-	81
Retirements	(42)	-	(33)	(1)	(76)
December 31, 2023	160	76	-	3	239
Net book value					
December 31, 2022	204	380	168	3	755
December 31, 2023	203	392	202	3	800

The additions to intangibles include interest capitalized during construction of \$6 million for the year ended December 31, 2023 (2022 - \$5 million).

IMPAIRMENTS

For the year ended December 31, 2023, impairments of \$33 million were recorded in respect of certain computer software projects in construction work-in-progress. The charge represents computer software project costs, which no longer have any value to the Company. The assets were derecognized from intangible assets on the consolidated balance sheet and the impairment was charged to depreciation, amortization and impairment expense in the consolidated statement of earnings.

11. LONG-TERM DEBT

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

	Effective Interest Rate	2023	2022
CU Inc. debentures - unsecured	4.369% (2022 - 4.397%) ⁽¹⁾	8,765	8,525
CU Inc. other long-term obligation, due June 2025 - unsecured ⁽²⁾	6.95% (2022 - 6.45%)	7	7
Less: deferred financing charges		(47)	(47)
		8,725	8,485
Less: amounts due within one year		(120)	(100)
		8,605	8,385

(1) Interest rate is the average effective interest rate weighted by principal amounts outstanding.

(2) In 2023, the expiry date of the CU Inc. other long-term obligation was extended from June 2024 until June 2025.

DEBENTURE ISSUANCES AND REPAYMENTS

On September 20, 2023, the Company issued \$340 million of 5.088 per cent debentures maturing September 20, 2053 (2022 - On September 14, 2022, the Company issued \$210 million of 4.773 per cent debentures maturing on September 14, 2052).

On May 1, 2023, the Company repaid \$100 million of 9.4 per cent debentures (2022 - On April 1, 2022, the Company repaid \$125 million of 9.92 per cent debentures).

12. RETIREMENT BENEFITS

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

The Company, together with Canadian Utilities Limited and its subsidiary companies, also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2023.

Contributions to the registered group defined benefit pension plan, which is accounted for as a defined contribution pension plan, are expensed as paid. Other post-employment benefit (OPEB) and non-registered defined benefit pension plans, which the Company funds out of general revenues, are administered on a combined basis with Canadian Utilities Limited and its subsidiary companies. For non-registered defined benefit pensions, the Company is assessed a percentage of the total cost of the plans.

THE COMPANY'S BENEFIT PLANS

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

	2023		2022	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	8	5	11	5
Defined contribution plans cost	21	–	19	–
Total cost	29	5	30	5
Less: Capitalized	(18)	(3)	(17)	(3)
Net cost recognized	11	2	13	2
Accrued benefit obligations				
Beginning of year	40	75	51	104
Defined benefit plan cost	8	5	11	5
Benefit payments	(6)	(3)	(6)	(3)
Contributions to defined benefit plans	(3)	–	(6)	–
Actuarial losses (gains) ⁽¹⁾	5	4	(10)	(31)
End of year	44	81	40	75

(1) Actuarial losses net of income taxes were \$6 million for the year ended December 31, 2023 (2022 - gains of \$32 million).

WEIGHTED AVERAGE ASSUMPTIONS

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

	2023		2022	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	5.28 %	5.28 %	3.16 %	3.16 %
Average compensation increase for the year	2.25 %	n/a	2.25 %	n/a
Accrued benefit obligations				
Discount rate at December 31	4.65 %	4.65 %	5.28 %	5.28 %
Long-term inflation rate ⁽¹⁾	2.00 %	n/a	2.00 %	n/a
Health care cost trend rate:				
Drug costs ⁽²⁾	n/a	4.95 %	n/a	5.00 %
Other medical costs	n/a	4.00 %	n/a	4.00 %
Dental costs	n/a	4.00 %	n/a	4.00 %

(1) The long-term inflation rate used to calculate the accrued benefit obligation at December 31, 2023 was 4.00 per cent for 2023, 2.20 per cent for 2024, and 2.00 per cent thereafter (2022 - 7.00 per cent for 2022, 3.50 per cent for 2023, 2.30 per cent for 2024 and 2.00 per cent thereafter).

(2) The Company uses a graded drug cost trend rate, which assumes a 4.95 per cent rate per annum (2022 - 5.00 per cent rate per annum), grading down to 4.00 per cent in and after 2040.

FUNDING

An actuarial valuation for funding purposes as of December 31, 2022 was completed in 2023 for the registered defined benefit pension plans. The estimated contribution for 2024 is \$3 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2025.

13. BALANCES FROM CONTRACTS WITH CUSTOMERS

Balances from contracts with customers are comprised of accounts receivable and contract assets and customer contributions.

ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

At December 31, accounts receivable and contract assets are as follows:

	2023	2022
Trade accounts receivable and contract assets	505	527
Other accounts receivable	6	4
Accounts receivable and contracts assets	511	531
Trade accounts receivable from parent and affiliate companies	17	6

A reconciliation of the changes in trade accounts receivable and contract assets and trade accounts receivable from parent and affiliate companies during the year ended December 31 are as follows:

	Trade accounts receivable and contract assets	Trade accounts receivable from parent and affiliate companies	Total
December 31, 2021	446	12	458
Revenue from satisfied performance obligations	3,072	26	3,098
Payments and settlements	(2,985)	(32)	(3,017)
Sale of ownership interest in a subsidiary company (Note 3)	(6)	-	(6)
December 31, 2022	527	6	533
Revenue from satisfied performance obligations	2,846	23	2,869
Payments and settlements	(2,868)	(12)	(2,880)
December 31, 2023	505	17	522

CUSTOMER CONTRIBUTIONS

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

Changes in customer contributions balance during the year ended December 31 are summarized below.

	2023	2022
Beginning of year	1,911	1,822
Receipt of customer contributions	116	153
Amortization	(56)	(54)
Sale of ownership interest in a subsidiary company (Notes 3)	-	(9)
Other	(3)	(1)
End of year	1,968	1,911

14. LEASES

RIGHT-OF-USE ASSETS

The Company's right-of-use assets mainly relate to the lease of land and buildings. A reconciliation of the changes in the carrying amount of right-of-use assets for the year ended December 31 is as follows:

	2023	2022
Cost		
Beginning of year	19	16
Additions	4	6
Disposals	-	(3)
End of year	23	19
Accumulated depreciation		
Beginning of year	4	5
Depreciation	1	2
Disposals	-	(3)
End of year	5	4
Net book value	18	15

LEASE LIABILITIES

The Company has recognized lease liabilities in relation to the arrangements to lease land and buildings. A reconciliation of movements in lease liabilities during the year ended December 31 is as follows:

	2023	2022
Beginning of year	15	11
Additions	4	6
Lease payments	(2)	(2)
End of year	17	15
Less: amounts due within one year	(1)	(1)
End of year	16	14

During the years ended December 31, 2023 and 2022, interest expense on lease liabilities was less than \$1 million.

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

In one year or less	2
In more than one year, but not more than five years	6
In more than five years	33
	41

During the year ended December 31, 2023, no expenses were incurred in relation to low-value leases, no expenses were incurred in relation to short-term leases, and leases with variable payments were less than \$1 million (2022 - no expenses were incurred in relation to low-value leases, \$1 million was expensed in relation to short-term leases, and leases with variable payments were less than \$1 million).

15. EQUITY PREFERRED SHARES

EQUITY PREFERRED SHARES

Authorized and issued

Authorized: an unlimited number of Preferred Shares, issuable in series.

Issued	2023		2022	
	Shares	Amount	Shares	Amount
Cumulative Redeemable Preferred Shares				
4.60% Series 1	4,600,000	115	4,600,000	115
2.292% Series 4	3,000,000	75	3,000,000	75
Issuance costs		(3)		(3)
		187		187

Rights and privileges

Preferred shares	Redemption Amount ⁽¹⁾	Quarterly Dividend ⁽²⁾	Reset Premium ⁽³⁾	Date Redeemable/Convertible	Convertible To
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.14325	1.36 %	June 1, 2026 ⁽⁴⁾	Series 5 ⁽⁵⁾

(1) Plus accrued and unpaid dividends.

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

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

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

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

DIVIDENDS

Cash dividends declared and paid per share during the year ended December 31 are as follows:

(dollars per share)	2023	2022
Cumulative Redeemable Preferred Shares		
4.60% Series 1	1.1500	1.1500
2.292% Series 4	0.5730	0.5730

The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 11, 2024, the Company declared first quarter dividends of \$0.28750 per Series 1 Preferred Share and \$0.14325 per Series 4 Preferred Share, payable on March 1, 2024 to share owners of record as of February 1, 2024.

16. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A and Class B shares at December 31 is shown below.

	Class A Non-Voting		Class B Voting		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2022 and 2023	3,570,322	654	2,188,262	402	5,758,584	1,056

Class A and Class B shares have no par value.

The Company declared and paid cash dividends of \$45.82 per Class A and Class B share during 2023 (2022 - \$85.71). The payment and amount of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

17. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities for the year ended December 31 are summarized below.

	2023	2022
Depreciation, amortization and impairment	607	559
Income tax expense	118	193
Contributions by customers for extensions to plant	116	153
Amortization of customer contributions	(56)	(54)
Net finance costs	361	359
Income taxes paid	-	(4)
Other	(2)	8
	1,144	1,214

CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital for the year ended December 31 are summarized below.

	2023	2022
Operating activities		
Accounts receivable and contract assets	21	(87)
Trade accounts receivable from parent and affiliate companies	(11)	6
Inventories	(4)	(4)
Prepaid expenses and other current assets	(16)	1
Accounts payable and accrued liabilities	(13)	84
Accounts payable to parent and affiliate companies	(23)	18
Provisions and other current liabilities	(49)	(18)
	(95)	-
Investing activities		
Accounts receivable and contract assets	(1)	13
Accounts payable and accrued liabilities	(40)	54
	(41)	67

DEBT RECONCILIATION

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

	Short-term debt ⁽¹⁾	Long-term debt
Liabilities from financing activities		
December 31, 2021	206	8,401
Net (repayment) issue of debt	(206)	85
Debt issue costs	-	(3)
Amortization of deferred financing charges	-	2
December 31, 2022	-	8,485
Net issue of debt	-	240
Debt issue costs	-	(3)
Amortization of deferred financing charges	-	3
December 31, 2023	-	8,725

(1) In January 2022, the Company paid the commercial paper notes that were outstanding at December 31, 2021. Commercial paper notes are supported by the Company's long-term committed credit lines (see Note 19).

CASH POSITION

Cash position at December 31 is comprised of:

	2023	2022
Cash	36	7
Short-term advances from parent company	(107)	(19)
Cash position	(71)	(12)

18. FINANCIAL INSTRUMENTS

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

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

The fair values of the Company's financial instruments measured at amortized cost at December 31 are as follows:

Recurring Measurements	2023		2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Long-term advances due from joint venture ⁽¹⁾	33	32	33	30
Financial Liabilities				
Long-term debt	8,725	8,408	8,485	7,567

(1) Long-term advances due from joint venture are recorded in prepaid expenses and other current assets, \$3 million (2022 - nil), and other assets, \$30 million (2022 - \$33 million), on the consolidated balance sheets.

OFFSETTING FINANCIAL ASSETS

At December 31, the following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

Financial Assets	2023			2022		
	Gross Amount	Gross Amount Offset	Net Amount Recognized	Gross Amount	Gross Amount Offset	Net Amount Recognized
Accounts receivable and contract assets	55	(33)	22	61	(56)	5

19. RISK MANAGEMENT

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

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

MARKET RISK

Foreign exchange risk

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

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty's inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and accounts receivable and contract assets. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated balance sheets.

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

The Company does not have a concentration of credit risk with any counterparty. Accounts receivable and contract assets credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The Alberta Utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations. At December 31, 2023, the Company held \$317 million in letters of credit for certain counterparty receivables (2022 - \$371 million). The Company has also entered into guarantee arrangements with Direct Energy's parent company (NRG Energy) relating to the retail energy supply functions performed by Direct Energy (see Note 24).

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

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

	High (AA to AAA)	Medium (BBB to A)	Low (BB and below)
December 31, 2023	0%-0.02%	0.05%-0.14%	0.45%-2.85%
December 31, 2022	0%-0.02%	0.05%-0.14%	0.46%-2.99%

At December 31, 2023, the Company had \$28 million of accounts receivable and contract assets classified as Low (BB and below) (2022 - \$8 million).

Where the Company believes there is a high probability of a customer default, additional credit allowances are recorded.

The credit loss recognized in the consolidated statements of earnings during 2023 was \$1 million (2022 - credit loss less than \$1 million). As at December 31, 2023, the expected credit loss allowance balance was \$1 million (2022 - \$1 million) in the consolidated balance sheets.

The aging analysis of trade receivables at December 31 is as follows:

	2023	2022
Up to 30 days	494	517
31 to 60 days	5	5
61 to 90 days	1	1
Over 90 days	5	4
	505	527

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital structure. Cash flows from operations provide a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt and Class A and B shares. Commercial paper borrowings and short-term bank loans are also used under available credit lines to provide flexibility in the timing and amounts of long-term financing.

Lines of credit

At December 31, the Company has the following lines of credit that enable it to obtain financing for general business purposes:

	2023			2022		
	Total	Used	Available	Total	Used	Available
Long-term committed	900	-	900	900	-	900
Uncommitted	100	57	43	128	66	62
	1,000	57	943	1,028	66	962

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

Lines of credit utilized at December 31 are comprised of \$57 million of letters of credit (2022- \$66 million).

Commercial paper

The Company is authorized to issue \$700 million of commercial paper notes against its long-term committed credit facilities. At December 31, 2023 and 2022, the Company had a nil outstanding balance of commercial paper notes.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2023, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2024	2025	2026	2027	2028	2029 and thereafter
Accounts payable and accrued liabilities	535	-	-	-	-	-
Accounts payable to parent and affiliate companies	34	-	-	-	-	-
Long-term debt:						
Principal	120	7	-	-	125	8,520
Interest expense	369	368	367	367	363	6,422
	1,058	375	367	367	488	14,942

The table below analyzes the remaining contractual maturities at December 31, 2022, of the Company's financial liabilities based on the contractual undiscounted cash flows, as reported in the consolidated financial statements for the year ended December 31, 2022.

	2023	2024	2025	2026	2027	2028 and thereafter
Accounts payable and accrued liabilities	588	-	-	-	-	-
Accounts payable to parent and affiliate companies	57	-	-	-	-	-
Long-term debt:						
Principal	100	127	-	-	-	8,305
Interest expense	361	351	350	350	350	6,339
	1,106	478	350	350	350	14,644

20. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to:

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

The Company considers the impact of the AUC's decisions with respect to the Company's subsidiaries, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares, short-term debt and long-term debt. Financing decisions are based on assessments by management in line with the Company's objectives, with a goal of managing the financial risk to the Company as a whole.

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

The Company also manages capital to comply with the customary covenants on its debt. A common financial covenant for a large portion of the Company's debentures and credit facilities is that total debt divided by total capitalization must be less than 75 per cent. The Company defines total debt as the sum of bank indebtedness, short-term debt, short-term advances from parent company and long-term debt (including its respective current portion). It defines total capitalization as the sum of Class A and Class B shares, retained earnings, equity preferred shares, and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

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

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

	2023	2022
Short-term advances from parent company	107	19
Long-term debt	8,725	8,485
Total debt	8,832	8,504
Class A and Class B shares	1,056	1,056
Retained earnings	3,936	3,786
Equity preferred shares	187	187
Total equity	5,179	5,029
Total capitalization	14,011	13,533
Debt capitalization	63 %	63 %

For the year ended December 31, 2023, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

21. MATERIAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

ACCOUNTING JUDGMENTS

Revenue related items

The Company makes judgments with respect to evaluating whether the Company acts as principal or agent on certain flow-through charges to customers.

Impairment of financial assets

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

Impairment of long-lived assets

Long-lived assets consist primarily of property, plant and equipment, intangibles, rights-of-use assets, and equity-accounted investments. Indicators of impairment are considered when evaluating whether or not a long-lived asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used including the potential impact of climate change and energy transition risks, significant negative industry or economic trends, decline in strategic value, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. Judgments and assessments about conditions and events are made in order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

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

Leases

The Company evaluates contract terms and conditions to determine whether they contain or are leases. Where a lease exists, the Company determines whether substantially all of the significant risks and rewards of ownership are

transferred to the customer, in which case it is accounted for as a finance lease, or remain with the Company, in which case it is accounted for as an operating lease.

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.

Income taxes

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable. When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings and records provisions where appropriate.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution of natural gas and electricity. The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is based on historical consumption patterns. Management applies judgment to the measurement and value of the estimated consumption.

Impairment of financial assets

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

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence including the potential impact of climate change and energy transition risks.

Impairment of long-lived assets

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

Leases

Useful lives of right-of-use assets are based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence.

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Significant assumptions used to determine the retirement benefit cost and obligation are shown in Note 12.

Asset retirement obligations

The Company's estimates regarding asset retirement costs and related obligations change as a result of changes in cost estimates, legal and constructive requirements, market rates and technological advancement. The significant assumptions used to record asset retirement obligations include, but are not limited to, expected timing of retirement of an asset, scope and costs of retirement and reclamation activities, rates of inflation and a pre-tax risk-free discount rate. The estimates and assumptions for asset retirement obligations are reviewed at each reporting period. Changes to the estimates or assumptions could significantly impact the carrying values of the asset retirement obligations.

Income taxes

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using either the most likely amount method or the expected value method based on the sum of the probability-weighted amounts in a range of possible outcomes, depending on which method the Company expects to better estimate the amount of the provision.

Fair value measurements

The Company has material accounting policies and disclosures that require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data, where available. Significant unobservable inputs and valuation adjustments are periodically reviewed. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Company uses the evidence obtained from third parties to support measurement valuations.

22. SUBSIDIARIES

Principal operating subsidiaries, all of which are wholly owned, are listed below.

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
ATCO Electric Ltd. ⁽¹⁾	Canada	Electricity transmission, distribution, and related infrastructure services
ATCO Gas and Pipelines Ltd. ⁽²⁾	Canada	Natural gas transmission, distribution, and related infrastructure services

(1) ATCO Electric Ltd. comprises two divisions, ATCO Electric Transmission and ATCO Electric Distribution.

(2) ATCO Gas and Pipelines Ltd. comprises two divisions, ATCO Pipelines and ATCO Gas.

23. INVESTMENT IN JOINT VENTURE

On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in Northland Utilities Enterprises Ltd. (NUE) from 14 per cent to 50 per cent. The share purchase agreement includes a put option whereby the Company may be required to purchase the 36 per cent interest that was sold to DII for fair market value, if certain conditions occur. Commencing March 31, 2022, the Company no longer consolidates NUE as a controlled subsidiary, and instead, accounts for NUE as an investment in joint venture using the equity method of accounting.

The Company's investment in NUE is reported in the Electricity operating segment.

A reconciliation of the carrying amount of the investment in joint venture for the year ended December 31 is as follows:

	2023	2022
Beginning of year	17	-
Change in ownership of NUE	-	17
The Company's share of net losses	(2)	-
Dividends received	(1)	-
End of year	14	17

Commitments

The joint venture has contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on contractual undiscounted cash flows, was \$30 million at December 31, 2023 and 2022.

Dividends and Distributions

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

24. CONTINGENCIES

Measurement inaccuracies

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

Direct Energy Partnership retail obligation

In 2004, ATCO Gas and ATCO Electric Distribution transferred their retail energy supply businesses to Direct Energy Partnership (Direct Energy). The legal obligations of ATCO Gas and ATCO Electric Distribution for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric Distribution, with no refund of the transfer proceeds to Direct Energy.

NRG Energy Inc. (NRG), Direct Energy's parent company, provided a \$360 million guarantee, supported by a \$360 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric Distribution under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

Other

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

25. COMMITMENTS

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

	2024	2025	2026	2027	2028	2029 and thereafter
Purchase obligations:						
Operating and maintenance agreements	327	324	330	346	379	322
Capital expenditures	319	-	-	-	-	-
Other	58	22	6	6	6	6
	704	346	336	352	385	328

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not included in this note.

TRANSACTIONS WITH PARENT COMPANY OR ULTIMATE PARENT

Transaction	Recorded As	2023	2022
Rent, aircraft usage and licensing fees	Other expenses	18	17
Capital projects	Property, plant and equipment	4	3
Interest on short-term advances ⁽¹⁾	Interest income	2	2
Interest on short-term advances ⁽¹⁾	Interest expense	4	1

(1) The interest rates on short-term advances are based on the Bank of Canada overnight rate plus an applicable spread.

TRANSACTIONS WITH AFFILIATE COMPANIES

Transaction	Recorded As	2023	2022
Natural gas and electricity distribution, and management, planning and engineering services	Revenues	21	24
Purchase of natural gas	Fuel costs	10	8
Building rent and parking	Other expenses	1	-

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

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

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2023	2022
Receivables from related parties ⁽¹⁾	Accounts receivable from parent company	11	1
	Accounts receivable from affiliate company	6	5
Long-term advances due from joint venture ⁽²⁾	Prepaid expenses and other current assets	3	-
	Other assets	30	33
Short-term advances ⁽³⁾	Short-term advances from parent company	107	19
Payables to related parties ⁽¹⁾	Accounts payable to parent company	19	34
	Accounts payable to affiliate companies	15	23

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

(2) The interest rates on long-term advances due from joint venture are based on interest rates for similar borrowing arrangements.

(3) The interest rates on short-term advances are based on the Bank of Canada overnight rate plus an applicable spread.

KEY MANAGEMENT COMPENSATION

Information on management compensation for the year ended December 31 is shown below.

	2023	2022
Salaries and short-term employee benefits	12	10
Retirement benefits	1	1
Share-based compensation	2	3
Other	1	-
	16	14

Key management personnel comprise members of executive management and the Board, a total of 18 individuals (2022 - 18 individuals).

27. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

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

REVENUE RECOGNITION

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

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

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

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

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

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

Electricity and natural gas transmission

Revenue from electricity and natural gas transmission services is recognized when service is provided to customers and is measured in proportion to the amount it has the right to invoice under the contract.

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

Electricity and natural gas distribution

Revenue from distribution of electricity and natural gas is recognized when the services are provided to the customer based on metered consumption, which is adjusted periodically to reflect differences between estimated and actual consumption. Distribution of regulated and non-regulated electricity and natural gas is based on tariff-approved rates established by the Alberta Electric System Operator and Natural Gas Exchange and rates stipulated in the contracts, respectively. The Company recognizes revenue in an amount that corresponds directly with the services delivered and the amount invoiced.

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

Franchise fees

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

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing

an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

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

INCOME TAXES

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

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

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

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. The tax effect of temporary differences from investments in subsidiaries are not accounted for where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

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

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

The cost of inventories is comprised of all purchase and other costs to bring inventories to their present condition and location.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

The carrying amount of an asset is derecognized when it is replaced or disposed of from its use. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	25 to 67 years	50 years	2.0 %
Electricity distribution equipment	15 to 103 years	43 years	2.3 %
Gas transmission equipment	3 to 57 years	41 years	2.4 %
Gas distribution plant and equipment	6 to 57 years	42 years	2.4 %
Buildings	12 to 50 years	40 years	2.5 %
Other plant, equipment and machinery	4 to 50 years	19 years	5.3 %

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

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 45 and 80 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Intangible assets are derecognized when they are disposed of or when there is no future economic benefit to the Company. Gains and losses between the carrying amount and the disposal proceeds, if any, are recognized in earnings.

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

GOVERNMENT GRANTS

The Company receives subsidies and incentives from government entities (collectively, government grants) to subsidize capital project costs and operating and financing expenses.

Government grants are recognized when the grant conditions are met. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value.

Government grants related to assets are recognized as deferred income and amortized over the useful lives of the assets in earnings.

Government grants related to income that compensate operating costs are recorded as deferred income, and deducted against the related costs when incurred.

The economic benefit of a loan received from a government-controlled financial institution at a below-market rate of interest is treated as a government grant related to income measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates. The difference is amortized using the effective interest method over the life of the loan.

LEASES

The Company as a lessee

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.

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 in earnings over the lease term and are included in other expenses.

PROVISIONS

The Company recognizes provisions when:

- (i) there is a current legal or constructive obligation as a result of a past event;
- (ii) a probable outflow of economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate of the obligation can be made.

Current legal or constructive obligations arising from onerous contracts are recognized as provisions when the unavoidable cost of meeting the obligation under the contract exceeds the economic benefits expected to be received.

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

CONTINGENCIES

Contingent liabilities are potential obligations and contingent assets are potential assets, that arise from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events and whose existence is not wholly within the control of the Company.

Contingent liabilities, when identified, are assessed as either probable, possible or remote. Contingent liabilities are recognized in the consolidated financial statements when it is probable that future events will confirm them and when they can be reasonably estimated. Contingent liabilities assessed as possible are disclosed, together with a possible loss range, when determinable, in the notes to the consolidated financial statements. Contingent liabilities assessed as remote are neither recognized nor disclosed in the consolidated financial statements.

Contingent assets are not recognized in the consolidated financial statements.

Determining contingencies inherently involves the exercise of judgment and the calculation of the estimated outcomes of future events. Actual results could differ from the estimates.

ASSET RETIREMENT OBLIGATIONS

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

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

FINANCIAL INSTRUMENTS

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

- (i) held for the purpose of collecting contractual cash flows, and
- (ii) the contractual cash flows of the financial asset solely represent payments of principal and interest.

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not classified as fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt are amortized over the life of the respective financial liability using

the effective interest method. The Company's long-term debt and equity preferred shares are presented net of their respective transaction costs.

Offsetting financial instruments

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

- (i) if there is a legally enforceable right to offset the recognized amounts, and
- (ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized:

- (i) when the right to receive cash flows from the financial assets has expired or been transferred, and
- (ii) the Company has transferred substantially all the risks and rewards of ownership.

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

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

RETIREMENT BENEFITS

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as

paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2022.

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

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are translated at the exchange rate on the date of the transaction.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At December 31, 2023, certain new or amended standards that need to be adopted in future periods have not been early adopted. These standards are not expected to have a material impact to the Company.