CANADIAN UTILITIES LIMITED
An ATCO Company

CANADIAN UTILITIES LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2021

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CONSOLIDATED STATEMENTS OF EARNINGS

		Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars except per share data)	Note	2021	2020	2021	2020
Revenues	4	**790**	740	**1,697**	1,625
Costs and expenses					
Salaries, wages and benefits		**(90)**	(99)	**(176)**	(179)
Energy transmission and transportation		**(66)**	(55)	**(130)**	(108)
Plant and equipment maintenance		**(44)**	(48)	**(81)**	(93)
Fuel costs		**(21)**	(21)	**(50)**	(47)
Purchased power		**(69)**	(46)	**(146)**	(111)
Depreciation, amortization and impairment	3, 6	**(208)**	(162)	**(362)**	(305)
Franchise fees		**(58)**	(55)	**(139)**	(136)
Property and other taxes		**(18)**	(20)	**(35)**	(37)
Other		**(114)**	(36)	**(204)**	(98)
		(688)	(542)	**(1,323)**	(1,114)
Earnings from investment in joint ventures		**5**	3	**18**	9
Operating profit		**107**	201	**392**	520
Interest income		**3**	3	**6**	8
Interest expense		**(99)**	(100)	**(199)**	(199)
Net finance costs		**(96)**	(97)	**(193)**	(191)
Earnings before income taxes		**11**	104	**199**	329
Income tax expense		**(5)**	(31)	**(50)**	(94)
Earnings for the period		**6**	73	**149**	235
Earnings attributable to:					
Equity owners of the Company		**5**	72	**146**	232
Non-controlling interests		**1**	1	**3**	3
		6	73	**149**	235
(Loss) earnings per Class A and Class B share	5	**($0.04)**	$0.21	**$0.42**	$0.73
Diluted (loss) earnings per Class A and Class B share	5	**($0.04)**	$0.21	**$0.42**	$0.73

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars)	**Note**	**2021**	**2020**	**2021**	**2020**
Earnings for the period		**6**	73	**149**	235
Other comprehensive income (loss), net of income taxes					
Items that will not be reclassified to earnings:					
Re-measurement of retirement benefits (1)	10	**25**	(214)	**166**	(17)
Items that are or may be reclassified subsequently to earnings:					
Cash flow hedges (2)		**18**	(6)	**26**	(18)
Foreign currency translation adjustment (3)		**(30)**	56	**(44)**	(1)
		(12)	50	**(18)**	(19)
Other comprehensive income (loss)		**13**	(164)	**148**	(36)
Comprehensive income (loss) for the period		**19**	(91)	**297**	199
Comprehensive income (loss) attributable to:					
Equity owners of the Company		**18**	(92)	**294**	196
Non-controlling interests		**1**	1	**3**	3
		19	(91)	**297**	199

(1) Net of income taxes of $(8) million and $(50) million for the three and six months ended June 30, 2021 (2020 - $64 million and $5 million).

(2) Net of income taxes of $(5) million and $(8) million for the three and six months ended June 30, 2021 (2020 - $3 million and $8 million).

(3) Net of income taxes of nil.

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	June 30 2021	December 31 2020
ASSETS			
Current assets			
Cash and cash equivalents	11	**368**	781
Accounts receivable and contract assets		**523**	649
Finance lease receivables		**9**	9
Inventories		**25**	28
Prepaid expenses and other current assets		**180**	92
		1,105	1,559
Non-current assets			
Property, plant and equipment	6	**17,748**	17,563
Intangibles		**670**	656
Retirement benefit asset	10	**76**	–
Right-of-use assets		**52**	56
Investment in joint ventures		**182**	165
Finance lease receivables		**155**	164
Deferred income tax assets		**62**	72
Other assets		**61**	61
Total assets		**20,111**	20,296
LIABILITIES			
Current liabilities			
Bank indebtedness	11	**3**	3
Accounts payable and accrued liabilities		**498**	549
Lease liabilities		**8**	9
Provisions and other current liabilities		**113**	129
Long-term debt		**291**	166
		913	856
Non-current liabilities			
Deferred income tax liabilities		**1,502**	1,416
Retirement benefit obligations	10	**275**	411
Customer contributions		**1,836**	1,756
Lease liabilities		**45**	47
Other liabilities		**99**	115
Long-term debt		**8,728**	8,887
Total liabilities		**13,398**	13,488
EQUITY			
Equity preferred shares		**1,483**	1,483
Class A and Class B share owners' equity			
Class A and Class B shares	9	**1,214**	1,232
Contributed surplus		**8**	8
Retained earnings		**3,869**	3,928
Accumulated other comprehensive loss		**(48)**	(30)
Total equity attributable to equity owners of the Company		**6,526**	6,621
Non-controlling interests		**187**	187
Total equity		**6,713**	6,808
Total liabilities and equity		**20,111**	20,296

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to Equity Owners of the Company							
(millions of Canadian Dollars)	**Note**	**Class A and Class B Shares**	**Equity Preferred Shares**	**Contributed Surplus**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Total**	**Non-Controlling Interests**	**Total Equity**
December 31, 2019		1,228	1,483	16	4,054	(47)	6,734	187	6,921
Earnings for the period		–	–	–	232	–	232	3	235
Other comprehensive loss		–	–	–	–	(36)	(36)	–	(36)
Losses on retirement benefits transferred to retained earnings		–	–	–	(17)	17	–	–	–
Dividends	8, 9	–	–	–	(272)	–	(272)	(3)	(275)
Share-based compensation		6	–	(2)	–	–	4	–	4
Other		–	–	–	–	1	1	–	1
June 30, 2020		1,234	1,483	14	3,997	(65)	6,663	187	6,850
December 31, 2020		1,232	1,483	8	3,928	(30)	6,621	187	6,808
Earnings for the period		–	–	–	**146**	–	**146**	**3**	**149**
Other comprehensive income		–	–	–	–	**148**	**148**	–	**148**
Gains on retirement benefits transferred to retained earnings	10	–	–	–	**166**	**(166)**	–	–	–
Shares redeemed	9	**(20)**	–	–	**(99)**	–	**(119)**	–	**(119)**
Dividends	8,9	–	–	–	**(273)**	–	**(273)**	**(3)**	**(276)**
Share-based compensation		**2**	–	–	–	–	**2**	–	**2**
Other		–	–	–	**1**	–	**1**	–	**1**
June 30, 2021		**1,214**	**1,483**	**8**	**3,869**	**(48)**	**6,526**	**187**	**6,713**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Three Months Ended June 30		Six Months Ended June 30	
(millions of Canadian Dollars)	**Note**	**2021**	**2020**	**2021**	**2020**
Operating activities					
Earnings for the period		**6**	73	**149**	235
Adjustments to reconcile earnings to cash flows from operating activities	11	**356**	270	**656**	574
Changes in non-cash working capital		**15**	84	**83**	107
Cash flows from operating activities		**377**	427	**888**	916
Investing activities					
Additions to property, plant and equipment		**(381)**	(179)	**(575)**	(413)
Proceeds on disposal of property, plant and equipment		**1**	1	**30**	1
Additions to intangibles		**(37)**	(6)	**(65)**	(24)
Investment in joint ventures		**(8)**	(3)	**(12)**	(8)
Changes in non-cash working capital		**(32)**	(44)	**(10)**	(25)
Other	6	**(67)**	(2)	**(68)**	(2)
Cash flows used in investing activities		**(524)**	(233)	**(700)**	(471)
Financing activities					
Issue of long-term debt		**–**	–	**–**	55
Repayment of long-term debt		**(3)**	(3)	**(4)**	(58)
Repayment of lease liabilities		**(2)**	(2)	**(5)**	(5)
Purchase of Class A shares		**(61)**	–	**(119)**	–
Dividends paid on equity preferred shares		**(16)**	(16)	**(33)**	(33)
Dividends paid to non-controlling interests		**(1)**	(1)	**(3)**	(3)
Dividends paid to Class A and Class B share owners		**(120)**	(120)	**(240)**	(239)
Interest paid		**(111)**	(118)	**(192)**	(197)
Other		**(1)**	(1)	**–**	(1)
Cash flows used in financing activities		**(315)**	(261)	**(596)**	(481)
Decrease in cash position [(1)]		**(462)**	(67)	**(408)**	(36)
Foreign currency translation		**(3)**	5	**(5)**	(3)
Beginning of period		**830**	1,000	**778**	977
End of period	11	**365**	938	**365**	938

(1) Cash position includes $5 million which is not available for general use by the Company (2020 - $4 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2021

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

1. THE COMPANY AND ITS OPERATIONS

Canadian Utilities Limited was incorporated under the laws of Canada and is listed on the Toronto Stock Exchange. Its head office is at 4th Floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4 and its registered office is 20th Floor, 10035 - 105 Street, Edmonton, Alberta T5J 2V6. The Company is controlled by ATCO Ltd. and its controlling share owner, the Southern family.

Canadian Utilities Limited is engaged in the following business activities:

- Utilities (electricity and natural gas transmission and distribution and international electricity operations);
- Energy infrastructure (electricity generation, energy storage, and industrial water solutions); and
- Retail Energy (electricity and natural gas retail sales) (included in the Corporate & Other segment).

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

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and IFRS Interpretations Committee (IFRIC). They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2020, prepared according to IFRS.

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

The unaudited interim consolidated financial statements were authorized for issue by the Audit & Risk Committee, on behalf of the Board of Directors, on July 28, 2021.

BASIS OF MEASUREMENT

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

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations, the timing of utility rate decisions, the timing and demand of natural gas storage capacity sold and changes in natural gas storage fees.

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

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Use of judgments and estimates around the COVID-19 pandemic

For the three and six months ended June 30, 2021, the Company performed an assessment of the impacts of uncertainties around the COVID-19 pandemic on its consolidated financial position, financial performance and cash flows. The assessment required use of judgments and estimates and resulted in no material impacts.

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

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

2021	**Utilities**							
2020	**Electricity**	**Natural Gas**	**Eliminations**	**Total**	**Energy Infrastructure**	**Corporate & Other**	**Intersegment eliminations**	**Consolidated**
Revenues - external	**335**	**350**	**–**	**685**	**36**	**69**	**–**	**790**
	340	338	–	678	34	28	–	740
Revenues - intersegment	**3**	**1**	**(1)**	**3**	**3**	**7**	**(13)**	**–**
	7	1	(1)	7	10	8	(25)	–
Revenues	**338**	**351**	**(1)**	**688**	**39**	**76**	**(13)**	**790**
	347	339	(1)	685	44	36	(25)	740
Operating expenses [1]	**(132)**	**(225)**	**1**	**(356)**	**(47)**	**(90)**	**13**	**(480)**
	(130)	(206)	1	(335)	(42)	(31)	28	(380)
Depreciation, amortization and impairment	**(78)**	**(69)**	**–**	**(147)**	**(58)**	**(3)**	**–**	**(208)**
	(75)	(64)	–	(139)	(2)	(22)	1	(162)
Earnings from investment in joint ventures	**9**	**–**	**–**	**9**	**(4)**	**–**	**–**	**5**
	–	–	–	–	3	–	–	3
Net finance costs	**(56)**	**(37)**	**–**	**(93)**	**(2)**	**(1)**	**–**	**(96)**
	(57)	(36)	–	(93)	(3)	(1)	–	(97)
Earnings (loss) before income taxes	**81**	**20**	**–**	**101**	**(72)**	**(18)**	**–**	**11**
	85	33	–	118	–	(18)	4	104
Income tax (expense) recovery	**(17)**	**(5)**	**–**	**(22)**	**14**	**3**	**–**	**(5)**
	(20)	(9)	–	(29)	–	(1)	(1)	(31)
Earnings (loss) for the period	**64**	**15**	**–**	**79**	**(58)**	**(15)**	**–**	**6**
	65	24	–	89	–	(19)	3	73
Adjusted earnings (loss)	**82**	**42**	**–**	**124**	**7**	**(16)**	**–**	**115**
	78	33	–	111	4	(21)	–	94
Capital expenditures [3]	**86**	**326**	**–**	**412**	**6**	**3**	**–**	**421**
	79	101	–	**180**	5	2	–	187

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

2021	**Utilities**							
2020	**Electricity**	**Natural Gas**	**Eliminations**	**Total**	**Energy Infrastructure**	**Corporate & Other**	**Intersegment eliminations**	**Consolidated**
Revenues - external	**672**	**800**	**–**	**1,472**	**70**	**155**	**–**	**1,697**
	661	807	–	1,468	64	93	–	1,625
Revenues - intersegment	**6**	**2**	**(2)**	**6**	**21**	**14**	**(41)**	**–**
	10	2	(2)	10	26	16	(52)	–
Revenues	**678**	**802**	**(2)**	**1,478**	**91**	**169**	**(41)**	**1,697**
	671	809	(2)	1,478	90	109	(52)	1,625
Operating expenses (1)	**(263)**	**(472)**	**2**	**(733)**	**(85)**	**(184)**	**41**	**(961)**
	(256)	(435)	2	(689)	(80)	(93)	53	(809)
Depreciation, amortization and impairment	**(157)**	**(137)**	**–**	**(294)**	**(62)**	**(6)**	**–**	**(362)**
	(152)	(126)	–	(278)	(6)	(25)	4	(305)
Earnings from investment in joint ventures	**16**	**–**	**–**	**16**	**2**	**–**	**–**	**18**
	–	–	–	–	9	–	–	9
Net finance costs	**(112)**	**(74)**	**–**	**(186)**	**(5)**	**(2)**	**–**	**(193)**
	(115)	(70)	–	(185)	(6)	1	(1)	(191)
Earnings (loss) before income taxes	**162**	**119**	**–**	**281**	**(59)**	**(23)**	**–**	**199**
	148	178	–	326	7	(8)	4	329
Income tax (expense) recovery	**(35)**	**(28)**	**–**	**(63)**	**10**	**3**	**–**	**(50)**
	(35)	(45)	–	(80)	(9)	(4)	(1)	(94)
Earnings (loss) for the period	**127**	**91**	**–**	**218**	**(49)**	**(20)**	**–**	**149**
	113	133	–	246	(2)	(12)	3	235
Adjusted earnings (loss)	**172**	**153**	**–**	**325**	**17**	**(36)**	**–**	**306**
	156	144	–	300	9	(36)	–	273
Total assets (2)	**10,425**	**8,246**	**(2)**	**18,669**	**942**	**765**	**(265)**	**20,111**
	10,326	7,985	(1)	18,310	993	1,090	(97)	20,296
Capital expenditures (3)	**174**	**458**	**–**	**632**	**9**	**5**	**–**	**646**
	187	242	–	429	11	4	–	444

(1) Includes total costs and expenses, excluding depreciation, amortization, and impairment expense.
(2) 2020 comparatives are at December 31, 2020.
(3) Includes additions to property, plant and equipment, intangibles and $3 million and $6 million of interest capitalized during construction for the three and six months ended June 30, 2021 (2020 - $2 million and $7 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings attributable to equity owners of the Company 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;
- unrealized gains and losses on mark-to-market forward and swap commodity contracts;
- impairments; and
- items that are not in the normal course of business or a result of day-to-day operations.

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

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

2021 **2020**	**Utilities**	**Energy Infrastructure**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings (loss)	**124**	**7**	**(16)**	**–**	**115**
	111	4	(21)	–	94
Transition of managed IT services	**(14)**	**(1)**	**(1)**	**–**	**(16)**
	–	–	–	–	–
Impairment and other costs	**–**	**(64)**	**(1)**	**–**	**(65)**
	(8)	(3)	(19)	–	(30)
Unrealized gains (losses) on mark-to-market forward and swap commodity contracts	**–**	**–**	**(13)**	**–**	**(13)**
	–	(2)	5	–	3
Rate-regulated activities	**(29)**	**–**	**–**	**–**	**(29)**
	(13)	–	1	3	(9)
IT Common Matters decision	**(3)**	**–**	**–**	**–**	**(3)**
	(3)	–	–	–	(3)
Dividends on equity preferred shares of Canadian Utilities Limited	**–**	**–**	**16**	**–**	**16**
	1	–	15	–	16
Other	**–**	**–**	**–**	**–**	**–**
	–	1	–	–	1
Earnings (loss) attributable to equity owners of the Company	**78**	**(58)**	**(15)**	**–**	**5**
	88	–	(19)	3	72
Earnings attributable to non-controlling interests					**1**
					1
Earnings for the period					**6**
					73

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

2021 2020	Utilities	Energy Infrastructure	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings (loss)	**325**	**17**	**(36)**	**–**	**306**
	300	9	(36)	–	273
Transition of managed IT services	**(24)**	**(1)**	**(2)**	**–**	**(27)**
	–	–	–	–	–
Impairment and other costs	**–**	**(64)**	**(1)**	**–**	**(65)**
	(8)	(3)	(19)	–	(30)
Unrealized (losses) gains on mark-to-market forward and swap commodity contracts	**–**	**–**	**(12)**	**–**	**(12)**
	–	(2)	11	–	9
Rate-regulated activities	**(81)**	**–**	**–**	**–**	**(81)**
	(44)	–	1	3	(40)
IT Common Matters decision	**(7)**	**–**	**–**	**–**	**(7)**
	(7)	–	–	–	(7)
Dividends on equity preferred shares of Canadian Utilities Limited	**2**	**–**	**31**	**–**	**33**
	2	–	31	–	33
Other	**–**	**(1)**	**–**	**–**	**(1)**
	–	(6)	–	–	(6)
Earnings (loss) attributable to equity owners of the Company	**215**	**(49)**	**(20)**	**–**	**146**
	243	(2)	(12)	3	232
Earnings attributable to non-controlling interests					**3**
					3
Earnings for the period					**149**
					235

Transition of managed IT services

In 2020, and in the first quarter of 2021, the Company signed Master Services Agreements (MSA) with IBM Canada Ltd. and IBM Australia Limited (IBM), respectively, to provide managed information technology (IT) services. These services are currently provided by Wipro Ltd. (Wipro) under a ten-year MSA expiring in December 2024. The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and is expected to be completed by the third quarter of 2021.

In 2020, and during the first quarter of 2021, the Company recognized onerous contract provisions of $71 million ($55 million after-tax) and $6 million ($4 million after-tax), respectively, which represents management's best estimate of the costs to exit the Wipro MSAs. The provisions are included in provisions and other current liabilities in the consolidated balance sheets. The provision of $6 million was recorded in the first quarter of 2021 and is included in other expenses in the consolidated statements of earnings for the six months ended June 30, 2021. The actual costs are expected to be finalized later in 2021. The onerous contract provision is not in the normal course of business and has been excluded from Adjusted Earnings.

In addition, for the three and six months ended June 30, 2021, the Company recognized transition costs of $21 million and $29 million ($16 million and $23 million after-tax). The transition costs relate to activities to transfer the managed IT services from Wipro to IBM. As these costs are not in the normal course of business, they have been excluded from Adjusted Earnings.

Impairment and other costs recorded in the second quarter of 2021

In the second quarter of 2021, impairments and other costs not in the normal course of business of $65 million after tax were recorded, mainly in Mexico, related to Energy Infrastructure's Veracruz hydro facility in the amount of $54 million after tax. Other costs recorded were individually immaterial.

The charge reflects an adverse arbitration decision, changes in market regulations, ongoing political uncertainty, and challenging operating environment, resulting in an impairment of the carrying value of the assets.

The recoverable amount of Energy Infrastructure's Veracruz hydro facility was determined based on fair value less costs of disposal. The expected future cash flows were estimated under an assumption of 43 years of operations, representing the useful life of the Veracruz hydro facility, and were discounted at an after-tax rate of approximately 10 per cent. The fair value measurement is categorized as level 3 on the fair value hierarchy. As at June 30, 2021, the recoverable amount of Energy Infrastructure's Veracruz hydro facility was estimated to be $22 million.

As the charges relate to impairments, they have been excluded from Adjusted Earnings.

Impairment and other costs recorded in the second quarter of 2020

In the second quarter of 2020, impairment and other costs not in the normal course of business of $30 million after-tax were recorded. These costs mainly related to certain assets that no longer represent strategic value to the Company.

The Company's subsidiary ATCO Oil & Gas Ltd. holds a 5 per cent working interest in oil and gas assets in Northern Canada. With continued low oil prices and the COVID-19 pandemic continuing to cause economic uncertainty, an impairment of $18 million was recorded during the three and six months ended June 30, 2020, reflecting the reduced likelihood of future recovery of these costs.

The remaining costs related to the continued transformation and realignment of certain functions in the Company.

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

The Company's retail electricity and natural gas business in Alberta enters into fixed-price swap commodity contracts to manage exposure to electricity and natural gas prices and volumes. These contracts are measured at fair value. Unrealized gains and losses due to changes in the fair value of the fixed-price swap commodity contracts are recognized in the earnings of the Corporate & Other segment.

The CODM believes that removal of the unrealized gains or losses on mark-to-market forward and swap commodity contracts provides a better representation of operating results for the Company's operations.

Realized gains or losses are recognized in adjusted earnings when the commodity contracts are settled.

Rate-regulated activities

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

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

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

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

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2021	**2020**	**2021**	**2020**
Additional revenues billed in current period				
Future removal and site restoration costs (1)	**29**	17	**58**	39
Impact of colder temperatures (2)	**1**	4	**–**	9
Revenues to be billed in future periods				
Deferred income taxes (3)	**(30)**	(22)	**(55)**	(56)
Distribution rate relief (4)	**(34)**	–	**(75)**	–
Impact of warmer temperatures (2)	**–**	–	**(1)**	–
Impact of inflation on rate base (5)	**(3)**	(1)	**(10)**	(4)
Settlement of regulatory decisions and other items (6)	**8**	(7)	**2**	(28)
	(29)	(9)	**(81)**	(40)

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

(2) Natural 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 in the current period are refunded to or recovered from customers in future periods.

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

(4) During the three and six months ended June 30, 2021, Electricity Distribution and Natural Gas Distribution recorded a decrease in earnings of $34 million and $75 million related to interim rate relief for customers as applied for by the Company and approved by the AUC to hold current distribution base rates in place. This will be recovered from customers in 2022 and 2023.

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

(6) In the first six months of 2020, Electricity Distribution recorded a decrease in earnings of $22 million related to the payment of transmission costs. Substantially all of these costs were recovered from customers in the second half of 2020.

IT Common Matters decision

Consistent with the treatment of the gain on sale in 2014 from the IT services business by the Company, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings in the three and six months ended June 30, 2021 was $3 million and $7 million (2020 - $3 million and $7 million).

Other

The Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. During the three and six months ended June 30, 2021, the Company recorded a foreign exchange loss of nil and $1 million (2020 - a foreign exchange gain of $1 million and foreign exchange loss of $6 million), due to a difference between the tax base currency, which is the Mexican peso, and the U.S. dollar functional currency.

4. REVENUES

The Company disaggregates revenues based on the nature of revenue streams. The disaggregation of revenues by each operating segment for the three months ended June 30 is shown below:

2021	**Utilities**			**Energy Infrastructure**	**Corporate & Other**	**Consolidated**
2020	**Electricity (1)**	**Natural Gas (1)**	**Total**			
Revenue Streams						
Rendering of Services						
Distribution services	**122**	**211**	**333**	–	–	**333**
	131	202	333	–	–	333
Transmission services	**174**	**76**	**250**	–	–	**250**
	173	73	246	–	–	246
Customer contributions	**7**	**6**	**13**	–	–	**13**
	7	5	12	–	–	12
Franchise fees	**8**	**50**	**58**	–	–	**58**
	7	48	55	–	–	55
Retail electricity and natural gas services	–	–	–	–	**57**	**57**
	–	–	–	–	25	25
Storage and industrial water	–	–	–	**3**	–	**3**
	–	–	–	5	–	5
Total rendering of services	**311**	**343**	**654**	**3**	**57**	**714**
	318	328	646	5	25	676
Sale of Goods						
Electricity generation and delivery	–	–	–	**9**	–	**9**
	–	–	–	7	–	7
Commodity sales	–	–	–	**12**	–	**12**
	–	–	–	8	–	8
Total sale of goods	–	–	–	**21**	–	**21**
	–	–	–	15	–	15
Lease income						
Finance lease	–	–	–	**5**	–	**5**
	–	–	–	2	–	2
Other	**24**	**7**	**31**	**7**	**12**	**50**
	26	10	36	8	3	47
Total	**335**	**350**	**685**	**36**	**69**	**790**
	344	338	682	30	28	740

(1) For the three months ended June 30, 2021, Electricity and Natural Gas segments include $103 million of unbilled revenue (2020 - $97 million).

The disaggregation of revenues by each operating segment for the six months ended June 30 is shown below:

2021 2020	Utilities Electricity [1]	 Natural Gas [1]	 Total	Energy Infrastructure	Corporate & Other	Consolidated
Revenue Streams						
Rendering of Services						
Distribution services	**252**	**502**	**754**	**–**	**–**	**754**
	250	509	759	–	–	759
Transmission services	**347**	**152**	**499**	**–**	**–**	**499**
	346	145	491	–	–	491
Customer contributions	**16**	**11**	**27**	**–**	**–**	**27**
	15	11	26	–	–	26
Franchise fees	**17**	**122**	**139**	**–**	**–**	**139**
	15	121	136	–	–	136
Retail electricity and natural gas services	**–**	**–**	**–**	**–**	**140**	**140**
	–	–	–	–	85	85
Storage and industrial water	**–**	**–**	**–**	**9**	**–**	**9**
	–	–	–	7	–	7
Total rendering of services	**632**	**787**	**1,419**	**9**	**140**	**1,568**
	626	786	1,412	7	85	1,504
Sale of Goods						
Electricity generation and delivery	**–**	**–**	**–**	**16**	**–**	**16**
	–	–	–	14	–	14
Commodity sales	**–**	**–**	**–**	**20**	**–**	**20**
	–	–	–	15	–	15
Total sale of goods	**–**	**–**	**–**	**36**	**–**	**36**
	–	–	–	29	–	29
Lease income						
Finance lease	**–**	**–**	**–**	**8**	**–**	**8**
	–	–	–	5	–	5
Other	**40**	**13**	**53**	**17**	**15**	**85**
	35	21	56	23	8	87
Total	**672**	**800**	**1,472**	**70**	**155**	**1,697**
	661	807	1,468	64	93	1,625

(1) For the six months ended June 30, 2021, Electricity and Natural Gas segments include $103 million of unbilled revenue (2020 - $97 million). At June 30, 2021, $103 million of the unbilled trade accounts receivables are included in trade accounts receivable and contract assets (December 31, 2020 - $132 million).

5. EARNINGS PER SHARE

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2021	**2020**	**2021**	**2020**
Average shares				
Weighted average shares outstanding	**269,695,385**	272,794,153	**270,847,650**	272,737,979
Effect of dilutive stock options	**46,386**	8,936	**21,475**	19,960
Effect of dilutive MTIP	**425,338**	461,572	**434,932**	514,687
Weighted average dilutive shares outstanding	**270,167,109**	273,264,661	**271,304,057**	273,272,626
(Loss) earnings for earnings per share calculation				
Earnings for the period	**6**	73	**149**	235
Dividends on equity preferred shares of the Company	**(16)**	(16)	**(33)**	(33)
Dividends to non-controlling interests	**(1)**	(1)	**(3)**	(3)
(Loss) earnings attributable to Class A and B shares	**(11)**	56	**113**	199
Loss (earnings) and diluted (loss) earnings per Class A and Class B share				
(Loss) earnings per Class A and Class B share	**$(0.04)**	$0.21	**$0.42**	$0.73
Diluted (loss) earnings per Class A and Class B share	**$(0.04)**	$0.21	**$0.42**	$0.73

6. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission & Distribution	Electricity Generation	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost						
December 31, 2020	21,004	140	700	566	1,053	23,463
Additions	**13**	–	–	**576**	**2**	**591**
Transfers	**493**	–	**4**	**(515)**	**18**	–
Retirements and disposals	**(32)**	–	**(3)**	**(29)**	**(12)**	**(76)**
Changes to asset retirement costs	–	**(2)**	–	–	**(5)**	**(7)**
Foreign exchange rate adjustment	**(64)**	**(6)**	**(2)**	**(7)**	**(1)**	**(80)**
June 30, 2021	**21,414**	**132**	**699**	**591**	**1,055**	**23,891**
Accumulated depreciation						
December 31, 2020	5,119	18	164	79	520	5,900
Depreciation and impairment	**247**	**25**	**10**	–	**28**	**310**
Retirements and disposals	**(32)**	–	**(3)**	–	**(12)**	**(47)**
Foreign exchange rate adjustment	**(15)**	**(1)**	–	**(3)**	**(1)**	**(20)**
June 30, 2021	**5,319**	**42**	**171**	**76**	**535**	**6,143**
Net book value						
December 31, 2020	15,885	122	536	487	533	17,563
June 30, 2021	**16,095**	**90**	**528**	**515**	**520**	**17,748**

The additions to property, plant and equipment included $6 million of interest capitalized during construction for the six months ended June 30, 2021 (2020 - $7 million).

PIONEER NATURAL GAS PIPELINE ACQUISITION

Utilities Segment

In the third quarter of 2020, ATCO Gas and Pipelines Ltd., a wholly owned subsidiary of CU Inc., entered into an agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation, subject to customary conditions including regulatory approvals by the Alberta Utilities Commission (AUC) and Alberta Energy Regulator.

The 131 km natural gas pipeline runs from the Drayton Valley area to the Wabamum area west of Edmonton. On June 15, 2021, the AUC issued a decision approving the acquisition of the Pioneer Pipeline and associated costs, totaling $265 million.

Consistent with the geographic areas defined in the Integration Agreement, ATCO Gas and Pipelines Ltd. will transfer to Nova Gas Transmission Ltd. (NGTL) the 30 km segment of pipeline that is located in the NGTL footprint for approximately $65 million. The transfer to NGTL is subject to approval from the Canada Energy Regulator and is expected to close in the fourth quarter of 2021.

The transaction to acquire the Pioneer Pipeline closed during the second quarter of 2021. As a result, $197 million was recorded in additions to property, plant and equipment in the consolidated balance sheets and the consolidated statements of cash flows. The costs incurred to date for the segment of the pipeline that will be sold to NGTL, amounting to $63 million, were recorded as assets held-for-sale in prepaid expenses and other current assets in the consolidated balance sheets, and were included in other investing activities in the consolidated statements of cash flows. The remaining $5 million relates to pipeline integration costs that are expected to be incurred in the second half of 2021.

ATCO Gas and Pipelines Ltd. applied the optional IFRS 3 *Business combinations* concentration test to the acquisition of the Pioneer Pipeline, which has resulted in the acquired asset being accounted for as an asset acquisition.

7. LONG-TERM DEBT

In the first quarter of 2020, ATCO Power Australia, the Company's subsidiary, refinanced its $63 million Australian dollars (equivalent of $55 million Canadian dollars) credit facility with a new lender at Bank Bill Swap Benchmark Rate (BBSY) plus margin fee, extending the credit facility's maturity from February 2020 to June 2025. The floating BBSY interest rate is hedged to June 23, 2025 with an interest rate swap agreement which fixes the interest rate at 1.68 per cent.

8. EQUITY PREFERRED SHARES

Cash dividends declared and paid per share are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(dollars per share)	**2021**	**2020**	**2021**	**2020**
Perpetual Cumulative Second Preferred Shares				
4.60% Series V	**0.2875**	0.2875	**0.5750**	0.5750
Cumulative Redeemable Second Preferred Shares				
3.403% Series Y	**0.2127**	0.2127	**0.4254**	0.4254
4.90% Series AA	**0.3063**	0.3063	**0.6125**	0.6125
4.90% Series BB	**0.3063**	0.3063	**0.6125**	0.6125
4.50% Series CC	**0.2813**	0.2813	**0.5625**	0.5625
4.50% Series DD	**0.2813**	0.2813	**0.5625**	0.5625
5.25% Series EE	**0.3281**	0.3281	**0.6563**	0.6563
4.50% Series FF	**0.2813**	0.2813	**0.5625**	0.5625

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

9. CLASS A AND CLASS B SHARES

At June 30, 2021, there were 196,531,197 (December 31, 2020 - 199,410,836) Class A shares and 72,763,274 (December 31, 2020 - 73,449,889) Class B shares outstanding. In addition, there were 1,740,000 options to purchase Class A shares outstanding at June 30, 2021, under the Company's stock option plan.

DIVIDENDS

The Company declared and paid cash dividends of $0.4398 and $0.8796 per Class A and Class B share during the three and six months ended June 30, 2021 (2020 - $0.4354 and $0.8708). The Company's policy is to pay dividends quarterly on its Class A and Class B shares. The payment of any dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On July 21, 2021, the Company declared a third quarter dividend of $0.4398 per Class A and Class B share.

NORMAL COURSE ISSUER BID

On July 27, 2021, the Company announced it will begin a new normal course issuer bid on July 29, 2021, to purchase up to 3,930,623 outstanding Class A Shares. The bid will expire on July 28, 2022. The prior normal course issuer bid to purchase up to 3,996,004 outstanding Class A Shares began on July 22, 2020 and expired on July 21, 2021.

During the six months ended June 30, 3,576,004 Class A shares were purchased for $119 million, resulting in a decrease to share capital of $20 million and a decrease to retained earnings of $99 million.

10. RETIREMENT BENEFITS

At June 30, 2021, the discount rate assumption which is used to measure the accrued benefit obligations increased to 3.19 per cent from 2.58 per cent at December 31, 2020. The discount rate assumption was based on market interest rates of high quality bonds that match the timing and amount of expected benefit payments.

Due to the re-measurement of the accrued benefit obligations and related plan assets, the funded status (market value of assets less accrued benefit obligations) increased from a net deficit of $411 million at December 31, 2020 to a net deficit of $199 million at June 30, 2021. The deficit of $199 million is net of a retirement benefit asset of $76 million related to Retirement Plan for Employees of Canadian Utilities Limited and Participating Companies (CU Plan).

At June 30, 2021, the Company has recognized a retirement benefit asset of $76 million and retirement benefit obligations of $275 million.

11. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

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

	Three Months Ended June 30		Six Months Ended June 30	
	2021	**2020**	**2021**	**2020**
Depreciation, amortization and impairment	**208**	162	**362**	305
Dividends and distributions received from investment in joint ventures	**7**	8	**12**	12
Earnings from investment in joint ventures	**(5)**	(3)	**(18)**	(9)
Income tax expense	**5**	31	**50**	94
Unrealized losses (gains) on derivative financial instruments	**14**	(5)	**15**	(12)
Contributions by customers for extensions to plant	**51**	21	**107**	47
Amortization of customer contributions	**(13)**	(12)	**(27)**	(26)
Net finance costs	**96**	97	**193**	191
Income taxes paid	**(8)**	(7)	**(40)**	(15)
Other	**1**	(22)	**2**	(13)
	356	270	**656**	574

CASH POSITION

Cash position in the unaudited interim consolidated statements of cash flows at June 30 is comprised of:

	2021	**2020**
Cash	**362**	932
Short-term investments	**1**	4
Restricted cash [(1)]	**5**	4
Cash and cash equivalents	**368**	940
Bank indebtedness	**(3)**	(2)
	365	938

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

12. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

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

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash and cash equivalents, accounts receivable and contract assets, bank indebtedness, and accounts payable and accrued liabilities	Assumed to approximate carrying value due to their short-term nature.
Finance lease receivables	Determined using a risk-adjusted interest rate to discount future cash receipts (Level 2).
Long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
Measured at Fair Value	
Interest rate swaps	Determined using interest rate yield curves at period-end (Level 2).
Foreign currency contracts	Determined using quoted forward exchange rates at period-end (Level 2).
Commodity contracts	Determined using observable period-end forward curves and quoted spot market prices with inputs validated by publicly available market providers (Level 2).
	Determined using statistical techniques to derive period-end forward curves using unobservable inputs or extrapolation from spot prices in certain commodity contracts (Level 3).

FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

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

	June 30, 2021		December 31, 2020	
Recurring Measurements	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Finance lease receivables	**164**	**230**	173	251
Financial Liabilities				
Long-term debt	**9,019**	**10,392**	9,053	11,396

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At June 30, 2021, the following derivative instruments were outstanding:

- interest rate swaps for the purpose of limiting interest rate risk on the variable future cash flows of long-term debt; and
- natural gas and forward power sale and purchase contracts for the purpose of limiting exposure to electricity and natural gas market price movements.

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

	Subject to Hedge Accounting		Not Subject to Hedge Accounting	
Recurring Measurements	**Interest Rate Swaps**	**Commodities**	**Commodities**	**Total Fair Value of Derivatives**
June 30, 2021				
Financial Assets				
Prepaid expenses and other current assets	**–**	**48**	**2**	**50**
Other assets [(1)]	**–**	**18**	**4**	**22**
Financial Liabilities				
Provisions and other current liabilities	**1**	**15**	**14**	**30**
Other liabilities [(1)]	**8**	**8**	**2**	**18**
December 31, 2020				
Financial Assets				
Prepaid expenses and other current assets	–	25	5	30
Other assets [(1)]	–	12	4	16
Financial Liabilities				
Provisions and other current liabilities	1	6	8	15
Other liabilities [(1)]	20	4	3	27

(1) At June 30, 2021, financial liabilities and financial assets include $14 million and $3 million, respectively, of Level 3 derivative financial instruments (December 31, 2020 - financial liabilities and financial assets include $9 million and $8 million, respectively, of Level 3 derivative financial instruments).

Notional and maturity summary

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

Notional value and maturity	Subject to Hedge Accounting: Interest Rate Swaps	Subject to Hedge Accounting: Natural Gas (1)	Subject to Hedge Accounting: Power (2)	Not Subject to Hedge Accounting: Natural Gas (1)	Not Subject to Hedge Accounting: Power (2)	Not Subject to Hedge Accounting: Foreign Currency Forward Contracts
June 30, 2021						
Purchases (3)	–	**17,823,200**	**3,186,818**	–	–	–
Sales (3)	–	**2,646,652**	**594,020**	**6,444,382**	**905,971**	–
Currency						
Australian dollars	**735**	–	–	–	–	–
Mexican pesos	**570**	–	–	–	–	**100**
Maturity	**2023-2025**	**2021-2025**	**2021-2026**	**2021-2024**	**2021-2024**	**2021**
December 31, 2020						
Purchases (3)	–	10,593,800	2,203,836	–	–	–
Sales (3)	–	3,238,242	759,246	7,867,560	1,089,495	–
Currency						
Australian dollars	738	–	–	–	–	–
Mexican pesos	570	–	–	–	–	100
Maturity	2023-2025	2021-2025	2021-2025	2021-2024	2021-2024	2021

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

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

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