CANADIAN UTILITIES LIMITED
An ATCO Company

CANADIAN UTILITIES LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2021

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of Canadian Utilities Limited (Canadian Utilities, our, we, us, or the Company) during the six months ended June 30, 2021.

This MD&A was prepared as of July 28, 2021, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2021. Additional information, including the Company's previous MD&As, Annual Information Form (2020 AIF), and audited consolidated financial statements for the year ended December 31, 2020, is available on SEDAR at www.sedar.com. Information contained in the 2020 MD&A is not discussed in this MD&A if it remains substantially unchanged.

The Company is controlled by ATCO Ltd. and its controlling share owner, Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

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

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PERFORMANCE OVERVIEW

FINANCIAL METRICS

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

($ millions, except per share data and outstanding shares)	Three Months Ended June 30 2021	2020	Change	Six Months Ended June 30 2021	2020	Change
Key Financial Metrics						
Revenues	**790**	740	50	**1,697**	1,625	72
Adjusted earnings (loss) (1)	**115**	94	21	**306**	273	33
Utilities	**124**	111	13	**325**	300	25
Energy Infrastructure	**7**	4	3	**17**	9	8
Corporate & Other	**(16)**	(21)	5	**(36)**	(36)	—
Adjusted earnings ($ per share) (1)	**0.43**	0.34	0.09	**1.13**	1.00	0.13
Earnings (loss) attributable to equity owners of the Company	**5**	72	(67)	**146**	232	(86)
(Loss) earnings attributable to Class A and Class B shares	**(11)**	56	(67)	**113**	199	(86)
(Loss) earnings attributable to Class A and Class B shares ($ per share)	**(0.04)**	0.21	(0.25)	**0.42**	0.73	(0.31)
Cash dividends declared per Class A and Class B share (cents per share)	**43.98**	43.54	0.44	**87.96**	87.08	0.88
Funds generated by operations (1)	**362**	343	19	**805**	809	(4)
Capital investment (1)	**430**	190	240	**660**	449	211
Other Financial Metrics						
Weighted average Class A and Class B shares outstanding *(thousands):*						
Basic	**269,695**	272,794	(3,099)	**270,848**	272,738	(1,890)
Diluted	**270,167**	273,265	(3,098)	**271,304**	273,273	(1,969)

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

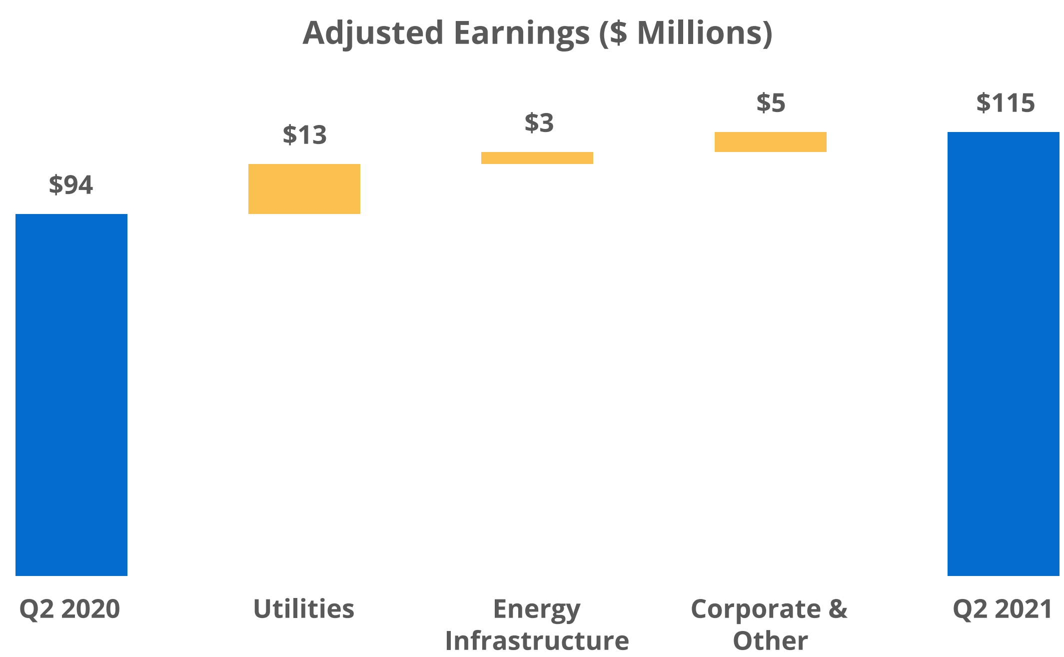
REVENUES

Revenues for the second quarter of 2021 were $790 million, $50 million higher than the same period in 2020. Higher revenues were mainly due to improved performance at ATCOenergy resulting from higher electricity and natural gas commodity prices associated with floating rate energy contracts.

ADJUSTED EARNINGS

Our adjusted earnings in the second quarter of 2021 were $115 million or $0.43 per share, compared to $94 million or $0.34 per share for the same period in 2020.

Higher adjusted earnings in the second quarter of 2021 were mainly due to earnings from International Electricity Operations related to ongoing transition work and the commencement on June 1, 2021 under the Supplemental Agreement to LUMA Energy's 15-year contract to modernize and operate Puerto Rico's electricity transmission and distribution (T&D) system. Higher earnings were also due to a return to more stable levels of inflation in Australia, which positively impacted earnings in International Natural Gas Distribution.



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

EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Earnings attributable to equity owners of the Company were $5 million in the second quarter of 2021, $67 million lower compared to 2020. Earnings attributable to equity owners of the Company include timing adjustments related to rate-regulated activities, dividends on equity preferred shares of the Company, unrealized gains or losses on mark-to-market forward and swap commodity contracts, 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. These items are not included in adjusted earnings.

More information on these and other items is included in the Reconciliation of Adjusted Earnings to Earnings Attributable to Equity Owners of the Company section of this MD&A.

Earnings attributable to equity owners of the Company are earnings attributable to Class A and Class B shares plus dividends on equity preferred shares of the Company. Additional information regarding earnings attributable to Class A and Class B shares is presented in Note 5 of the unaudited interim consolidated financial statements.

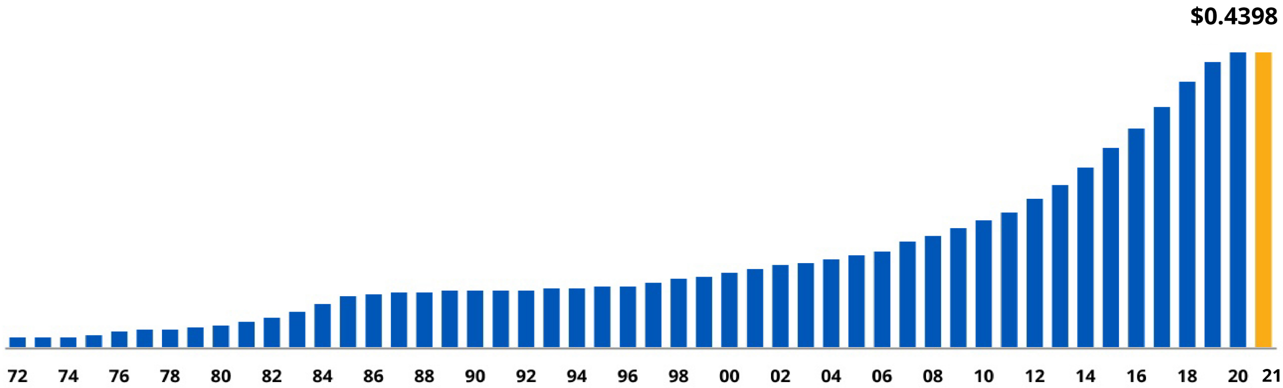
FUNDS GENERATED BY OPERATIONS

Funds generated by operations were $362 million in the second quarter of 2021, $19 million higher compared to the same period in 2020. The increase was mainly due to higher customer contributions for Electricity Transmission and International Natural Gas Distribution capital investments, partially offset by the timing of certain revenues and expenses.

COMMON SHARE DIVIDENDS

Dividends paid to Class A and Class B share owners totaled $120 million in the second quarter of 2021. On July 21, 2021, the Board of Directors declared a third quarter dividend of 43.98 cents per share.

Quarterly Dividend Rate 1972 - 2021
(dollars per share)

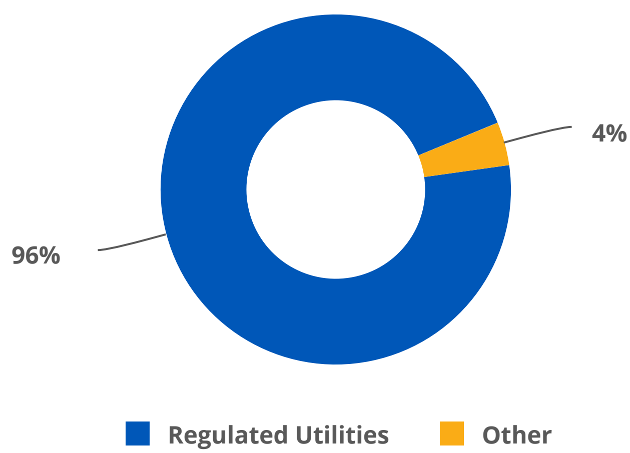


CAPITAL INVESTMENT

Total capital investment of $430 million and $660 million in the second quarter and first six months of 2021 was $240 million and $211 million higher compared to the same periods in 2020 mainly due to the acquisition of the Pioneer Pipeline in the Natural Gas Transmission business.

Capital spending in the Regulated Utilities accounted for 96 per cent of total capital invested in the first six months of 2021. The remaining 4 per cent invested included the construction of Storage & Industrial Water's long-term contracted hydrocarbon storage cavern in Fort Saskatchewan, Alberta.

Capital Investment for the Six Months Ended June 30, 2021



BUSINESS UNIT PERFORMANCE

REVENUES

Utilities revenues of $688 million and $1,478 million in the second quarter and first six months of 2021 were comparable to the same periods in 2020.

Revenue growth for Electricity and Natural Gas Distribution in the second quarter and first six months of 2021 has been deferred to be recognized and collected in a future period as a result of our decision to provide rate relief to customers in light of the current COVID-19 global pandemic and the economic situation in Alberta.

ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Electricity						
Electricity Distribution	**37**	32	5	**79**	67	12
Electricity Transmission	**36**	46	(10)	**79**	89	(10)
International Electricity Operations	**9**	—	9	**14**	—	14
Total Electricity	**82**	78	4	**172**	156	16
Natural Gas						
Natural Gas Distribution	**7**	2	5	**88**	84	4
Natural Gas Transmission	**21**	24	(3)	**40**	46	(6)
International Natural Gas Distribution	**14**	7	7	**25**	14	11
Total Natural Gas	**42**	33	9	**153**	144	9
Total Utilities Adjusted Earnings	**124**	111	13	**325**	300	25

Utilities adjusted earnings of $124 million and $325 million in the second quarter and first six months of 2021 were $13 million and $25 million higher than the same periods in 2020. Higher earnings were mainly due to contributions from International Electricity Operations, a higher inflation rate in International Natural Gas Distribution, and cost efficiencies, partially offset by the impact of the Electricity Transmission 2018-2019 General Tariff Application (GTA) Compliance Filing decision received in the second quarter of 2021.

Detailed information about the activities and financial results of the Utilities business segments is provided in the following sections.

Electricity Distribution

Electricity Distribution provides regulated electricity distribution and distributed generation mainly in Northern and Central East Alberta, the Yukon, the Northwest Territories and in the Lloydminster area of Saskatchewan.

Electricity Distribution adjusted earnings of $37 million and $79 million in the second quarter and first six months of 2021 were $5 million and $12 million higher compared to the same periods in 2020. Higher earnings were mainly due to cost efficiencies.

Electricity Transmission

Electricity Transmission provides regulated electricity transmission mainly in Northern and Central East Alberta, and in the Lloydminster area of Saskatchewan. Electricity Transmission has a 35-year contract to be the operator of Alberta PowerLine, a 500-km electricity transmission line between Wabamun, near Edmonton and Fort McMurray, Alberta.

Electricity Transmission adjusted earnings of $36 million and $79 million in the second quarter and first six months of 2021 were $10 million lower than the same periods in 2020. Lower earnings were mainly due to the impact of the Electricity Transmission 2018-2019 GTA Compliance Filing decision received from the AUC in the second quarter of 2021, which decreased earnings by $8 million, all of which related to prior periods.

International Electricity Operations

International Electricity Operations includes a 50 per cent ownership in LUMA Energy, a company formed in June of 2020 to transform, modernize and operate Puerto Rico's 30,000-km electricity T&D system under an Operations and Maintenance Agreement with the Puerto Rico Public-Private Partnerships Authority (P3A) and the Puerto Rico Electric Power Authority (PREPA).

LUMA has assumed operations under terms of a Supplemental Agreement as PREPA remains in bankruptcy. This Agreement can span up to 18 months and allows LUMA to collect an annualized fixed fee equivalent of $115 million USD. Should PREPA emerge from bankruptcy during this period, LUMA will transition to year one of the previously outlined Operations and Maintenance Agreement.

International Electricity Operations adjusted earnings in the second quarter and first six months of 2021 were $9 million and $14 million higher than the same periods in 2020 due to ongoing transition work and the commencement on June 1, 2021 under the Supplemental Agreement to LUMA Energy's 15-year contract to modernize and operate Puerto Rico's electricity T&D system.

Natural Gas Distribution

Natural Gas Distribution serves municipal, residential, commercial and industrial customers throughout Alberta and in the Lloydminster area of Saskatchewan.

Natural Gas Distribution adjusted earnings of $7 million and $88 million in the second quarter and first six months of 2021 were $5 million and $4 million higher than the same periods in 2020. Higher earnings were mainly due to the timing of operating costs.

Natural Gas Transmission

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

Natural Gas Transmission adjusted earnings of $21 million and $40 million in the second quarter and first six months of 2021 were $3 million and $6 million lower than the same periods in 2020. Lower adjusted earnings were mainly due to the impact of the 2021-2023 General Rate Application decision which included operating cost efficiencies implemented in prior periods that are being passed on to customers.

International Natural Gas Distribution

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

International Natural Gas Distribution adjusted earnings of $14 million and $25 million in the second quarter and first six months of 2021 were $7 million and $11 million higher compared to the same periods in 2020. Higher earnings were mainly due to the impact of a higher forecasted inflation rate and a settlement relating to the 2011 acquisition of ATCO Gas Australia.

UTILITIES REGULATORY DEVELOPMENTS

COMMON MATTERS

2021 Rate Relief Application

On March 1, 2021, Canadian Utilities filed a 2021 Rate Relief Application for Electricity Distribution and Natural Gas Distribution to postpone rate increases for the full year 2021 and collect the deferred amounts commencing in 2023 for no more than a 5-year period. On June 18, 2021, the AUC issued a decision directing Canadian Utilities to collect the 2021 deferred amounts commencing January 1, 2022, over a short duration, without exceeding a prescribed maximum increase in any year during the collection process. The majority of the deferred amounts are expected to be collected in 2022, with the remainder to be collected in 2023.

Distribution Regulatory Framework - Post 2022

On June 18, 2021, the AUC issued a decision providing direction regarding the 2023 cost of service application process. Each distribution utility is to present its application using an AUC-developed template with a prescribed minimum level of detail. Electricity Distribution is required to file its application by November 15, 2021, and Natural Gas Distribution is required to file its application by December 15, 2021.

On June 30, 2021, the AUC issued a decision relating to the Evaluation of Performance-Based Regulation in Alberta. The Commission determined that PBR has achieved many of the set principle objectives and that a third PBR term (PBR3) will commence in 2024 after a one year cost of service rebasing in 2023. A future generic proceeding will be initiated in the third quarter of 2022 to determine the parameters of PBR3, including a review of incremental capital funding provisions, the inflation (I) and productivity (X) factors, and consideration of an earnings sharing mechanism.

ELECTRICITY TRANSMISSION

2018-2019 General Tariff Application

On June 29, 2021, the AUC issued a decision on the 2018-2019 GTA Compliance Filing which determined Electricity Transmission’s final revenue requirement for 2018 and 2019. The impact of this decision is a decrease to second quarter 2021 adjusted earnings of $8 million, all of which relates to prior periods.

NATURAL GAS TRANSMISSION

Pioneer Pipeline Acquisition

In the third quarter of 2020, Natural Gas Transmission 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 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 pipeline and associated integration costs, totaling $265 million, and the corresponding revenue requirement for 2021 to be included in Natural Gas Transmission's rates.

Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission 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 pipeline has been integrated but is subject to approval from the Canada Energy Regulator and is expected to close in the fourth quarter of 2021.

With the close of the transaction on June 30, 2021, the Pioneer Pipeline has been incorporated into NGTL's and Canadian Utilities' Alberta regulated natural gas transmission systems to provide reliable natural gas supply to TransAlta's power generating units at Sundance and Keephills, facilitating the conversion of these coal plants to cleaner-burning natural gas.

ENERGY INFRASTRUCTURE

REVENUES

Energy Infrastructure revenues of $39 million in the second quarter of 2021 were $5 million lower than the same period in 2020 mainly due to demand for natural gas storage services.

Energy Infrastructure revenues of $91 million in the first six months of 2021 were $1 million higher than the same period in 2020 mainly due to demand for natural gas storage services.

ADJUSTED EARNINGS

			Three Months Ended June 30			Six Months Ended June 30
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Electricity Generation	**2**	2	—	**8**	6	2
Storage & Industrial Water	**5**	2	3	**9**	3	6
Total Energy Infrastructure Adjusted Earnings	**7**	4	3	**17**	9	8

Energy Infrastructure adjusted earnings of $7 million in the second quarter of 2021 were $3 million higher than the same period in 2020 mainly due to recovered business development costs, partially offset by lower demand for natural gas storage services.

Energy Infrastructure adjusted earnings of $17 million in the first six months of 2021 were $8 million higher than the same period in 2020 mainly due to recovered business development costs and demand for natural gas storage services.

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

Electricity Generation

Non-regulated electricity activities supply electricity from natural gas and hydroelectric generating plants in Western Canada, Australia, Chile, Mexico, and non-regulated electricity transmission in Alberta.

Electricity Generation adjusted earnings of $2 million in the second quarter of 2021 were comparable to the same period in 2020.

Electricity Generation adjusted earnings of $8 million in the first six months of 2021 were $2 million higher than the same period in 2020. Higher earnings were mainly due to recovered business development costs.

Storage & Industrial Water

Storage & Industrial Water provides non-regulated natural gas storage and transmission activities, natural gas liquids storage, and industrial water services in Alberta and the Northwest Territories.

Storage & Industrial Water adjusted earnings of $5 million and $9 million in the second quarter and first six months of 2021 were $3 million and $6 million higher than the same periods in 2020 mainly due to demand for natural gas storage services and recovered business development costs.

ENERGY INFRASTRUCTURE RECENT DEVELOPMENTS

CANADIAN UTILITIES - SUNCOR Clean Hydrogen Project

In May 2021, Canadian Utilities and Suncor Energy announced the decision to collaborate on early stage design and engineering of a potential clean hydrogen project. The project will produce more than 300,000 tons per year of clean hydrogen, while capturing greater than 90 per cent of the carbon emissions, reducing Alberta's carbon dioxide emissions by more than two million tons per year. The hydrogen production facility will be located at ATCO's Heartland Energy Centre near Fort Saskatchewan, Alberta, and is expected to be operational as early as 2028. Although several provincial and federal policies, fiscal programs and regulations have already been put in place to support significant decarbonization and the development of a leading low-carbon fuels industry, further regulatory certainty and fiscal support is required for the project to progress to a sanctioning decision. In addition to supplying clean hydrogen to Suncor and the Alberta gas grid, the project will make hydrogen volumes available for Alberta's other industrial, municipal and commercial transport users.

Clean Energy Innovation Park

In May 2021, Canadian Utilities and its joint venture partner, Australian Gas Infrastructure Group, received notification of $29 million AUD in conditional funding from the Australian Renewable Energy Agency (ARENA) to kick start the production of hydrogen through a large scale project at the proposed Clean Energy Innovation Park (CEIP) in Western Australia.

The proposed project will leverage learnings from our Clean Energy Innovation Hub, a pilot project which saw our Company become the first in Australia to generate and use green hydrogen.

The CEIP will include a 10-MW electrolyser and plant capable of producing up to four tonnes of hydrogen per day, along with storage and delivery to gas network injection points. The facility is planned to be co-located with a 180-MW wind farm in Western Australia, which will provide the renewable energy to power the electrolyser.

A final investment decision for this project is expected in the first quarter of 2022.

Chile Solar Generation Facility

In the fourth quarter of 2019, Canadian Utilities entered into a partnership with Impulso Capital, a Chilean developer, to build and operate the El Resplandor solar project. This project, located in Cabrero, Chile, provides solar energy to the Chilean electricity grid. The 3-MW of solar generation capacity was completed at the end of the second quarter of 2020 for a total investment of $4 million. Despite plans to expand the facility, Canadian Utilities has cancelled the remaining planned 6-MW of the project due to land zoning concerns.

CORPORATE & OTHER

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

ADJUSTED EARNINGS

			Three Months Ended June 30			Six Months Ended June 30
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Canadian Utilities Corporate & Other	**(16)**	(21)	5	**(36)**	(36)	—

Including intersegment eliminations, Canadian Utilities' Corporate & Other adjusted earnings in the second quarter of 2021 were $5 million higher than the same period in 2020 mainly due to improved earnings in ATCOenergy and the timing of certain expenses.

Including intersegment eliminations, Canadian Utilities' Corporate & Other adjusted earnings in the first six months of 2021 were comparable to the same period in 2020.

CANADIAN UTILITIES CORPORATE & OTHER RECENT DEVELOPMENTS

Rümi Launch

On June 3, 2021, Canadian Utilities launched Rümi, a solutions provider for home and business owners, offering lifestyle products, home maintenance services and professional advice for homeowners.

Rümi is expected to create more than 200 jobs in Alberta over the next 3 years, while simultaneously supporting Alberta businesses. Rümi currently offers approximately 60 services in Edmonton and Calgary, and more than 750 products for purchase online.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

Within our group of companies, we balance the short and long-term economic, environmental and social considerations of our businesses while creating value for our customers, employees, share owners, and Indigenous and community partners. As a provider of essential services in diverse communities around the world, we operate in an inclusive manner to meet the needs of society today and for generations to come.

Sustainability Reporting

In 2021, we completed a refresh of the material topics for ATCO's Sustainability Report, incorporating feedback from internal and external groups. ATCO's 2020 Sustainability Report, published in May 2021, focused on the following material topics:

- Energy Transition - energy transition and innovation, and energy access and affordability;
- Climate Change and Environmental Stewardship - climate change and GHG emissions, and environmental stewardship;
- Operational Reliability and Resilience - system reliability and availability, and emergency preparedness and response;
- People - occupational health and safety, public safety, and diversity, inclusion and equity; and
- Community and Indigenous Relations - Indigenous engagement, economic opportunity and reconciliation, and community engagement and investment.

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

The 2020 Sustainability Report, Sustainability Framework Reference Document, and more details of our materiality assessment, and other disclosures are available on our website at www.canadianutilities.com

Climate Change and Energy Transition

To contribute to a low carbon future, we continue to pursue initiatives to integrate cleaner fuels and renewable energy. We intend to expand our ownership and development of clean energy solutions, as well as enable our customers to transition to lower emitting sources of energy.

In May 2021, Canadian Utilities was able to advance two large scale hydrogen projects. In Australia, Canadian Utilities and its joint venture partner, Australian Gas Infrastructure Group, received notification of $29 million AUD in conditional funding from ARENA to kick start the production of hydrogen through a large scale project at the Company's proposed Clean Energy Innovation Park. This project builds on Canadian Utilities' pilot project, the Clean Energy Innovation Hub, and will produce hydrogen along with storage and delivery to gas network injection points. In Canada, Canadian Utilities and Suncor Energy announced the decision to collaborate on early-stage design and engineering for a potential hydrogen project near Fort Saskatchewan, Alberta.

As our portfolio of assets evolves, so too does our environmental footprint. Our direct (Scope 1) GHG emissions were reduced by 90 per cent from 2019 to 2020, primarily as a result of Canadian Utilities' sale of its Canadian fossil fuel-based electricity generation, eliminating coal-fired generation from our portfolio. Our direct GHG emissions from retained assets have been reduced by 17 per cent since 2019.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the second quarter and first six months of 2021 and 2020 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Operating costs	**480**	380	100	**961**	809	152
Depreciation, amortization and impairment	**208**	162	46	**362**	305	57
Earnings from investment in joint ventures	**5**	3	2	**18**	9	9
Net finance costs	**96**	97	(1)	**193**	191	2
Income tax expense	**5**	31	(26)	**50**	94	(44)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation, amortization and impairment, increased by $100 million and $152 million in the second quarter and first six months of 2021 compared to the same periods in 2020. Higher operating costs were mainly due to higher flow-through electricity costs in ATCOenergy, higher flow-through Alberta-system natural gas transmission costs, higher unrealized and realized losses on derivative financial instruments in 2021, and the recognition of termination and transition costs related to the early termination of the Master Services Agreements (MSA) with Wipro Ltd. (Wipro) for managed information technology (IT) services.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment increased by $46 million and $57 million in the second quarter and first six months of 2021 compared to the same periods in 2020 mainly due to the impairment of assets in the Energy Infrastructure segment as part of the continued assessment of our investment portfolio.

EARNINGS FROM INVESTMENT IN JOINT VENTURES

Earnings from investment in joint ventures is mainly comprised of Canadian Utilities' ownership positions in electricity generation plants, LUMA Energy electricity operations and maintenance in Puerto Rico, and the Strathcona Storage Limited Partnership, which operates hydrocarbon storage facilities at the ATCO Heartland Energy Centre near Fort Saskatchewan, Alberta.

Earnings from investment in joint ventures increased by $2 million and $9 million in the second quarter and first six months of 2021 compared to the same periods in 2020 mainly due to earnings from LUMA Energy due to the ongoing transition work during the period, and commencement on June 1, 2021 of the Supplemental Agreement, partially offset by an impairment of an investment in Canadian Utilities' Energy Infrastructure segment as part of the continued assessment of our investment portfolio.

NET FINANCE COSTS

Net finance costs decreased by $1 million in the second quarter of 2021 when compared to the same period in 2020 mainly due to lower interest expense as a result of increased capitalization of interest during construction on capital projects in 2021.

Net finance costs increased by $2 million in the first six months of 2021 when compared to the same period in 2020 mainly due to lower interest income resulting from lower interest rates received on bank balances.

INCOME TAX EXPENSE

Income taxes were lower by $26 million and $44 million in the second quarter and first six months of 2021 compared to the same periods in 2020 mainly due to lower earnings before income taxes and a reduction in deferred income tax assets in 2020.

LIQUIDITY AND CAPITAL RESOURCES

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

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

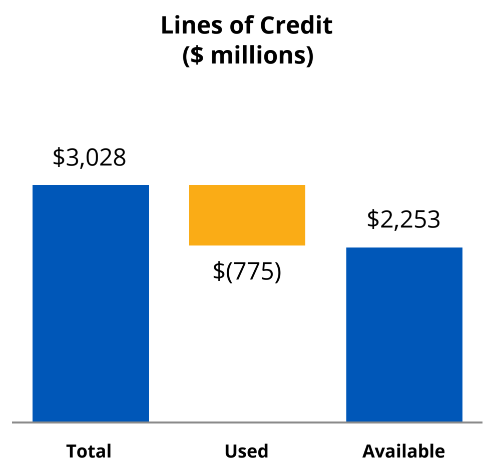
LINES OF CREDIT

At June 30, 2021, Canadian Utilities and its subsidiaries had the following lines of credit.

($ millions)	Total	Used	Available
Long-term committed	**2,475**	633	1,842
Uncommitted	**553**	142	411
Total	**3,028**	775	2,253

Of the $3,028 million in total lines of credit, $553 million was in the form of uncommitted credit facilities with no set maturity date. The other $2,475 million in credit lines was committed, with maturities between 2022 and 2024, and may be extended at the option of the lenders.

Of the $775 million in lines of credit used, $633 million was related to ATCO Gas Australia Pty Ltd. Long-term committed credit lines are used to satisfy all of ATCO Gas Australia Pty Ltd.'s term debt financing needs. The majority of the remaining usage pertains to the issuance of letters of credit.



CONSOLIDATED CASH FLOW

At June 30, 2021, the Company's cash position was $365 million, a decrease of $413 million compared to December 31, 2020. Funds generated by operations achieved during the quarter were partially offset by cash used to fund the capital investment program, dividends paid, financing costs and share repurchases.

Funds Generated by Operations

Funds generated by operations were $362 million in the second quarter of 2021, $19 million higher compared to the same period in 2020. The increase was mainly due to higher customer contributions for Electricity Transmission and International Natural Gas Distribution capital investments, partially offset by the timing of certain revenues and expenses.

Funds generated by operations of $805 million in the first six months of 2021 were comparable to the same period in 2020.

Funds generated by operations in 2021 are adversely impacted as a result of Canadian Utilities' decision to provide rate relief to customers through the deferral of rate increases for Electricity Distribution and Natural Gas Distribution which will be collected from customers starting in 2022.

Cash Used for Capital Investment

Cash used for capital investment was $430 million and $660 million in the second quarter and first six months of 2021, $240 million and $211 million higher compared to the same periods in 2020, mainly due to the acquisition of the Pioneer Pipeline in the Natural Gas Transmission business.

Capital investment for the second quarter and first six months of 2021 and 2020 is shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Utilities						
Electricity Distribution	**57**	50	7	**111**	116	(5)
Electricity Transmission	**28**	29	(1)	**62**	71	(9)
Natural Gas Distribution	**72**	45	27	**128**	102	26
Natural Gas Transmission	**231**	41	190	**291**	114	177
International Electricity Operations	**1**	—	1	**1**	—	1
International Natural Gas Distribution	**23**	15	8	**39**	26	13
	412	**180**	**232**	**632**	**429**	**203**
Energy Infrastructure						
Electricity Generation	**2**	1	1	**2**	3	(1)
Storage & Industrial Water	**13**	7	6	**21**	13	8
	15	**8**	**7**	**23**	**16**	**7**
CU Corporate & Other	**3**	2	1	**5**	4	1
Canadian Utilities Total Capital Investment (1) (2) (3)	**430**	190	240	**660**	449	211

(1) Includes capital expenditures in joint ventures of $9 million and $14 million (2020 - $3 million and $5 million) for the second quarter and first six months of 2021.

(2) Includes additions to property, plant and equipment, intangibles, and $3 million and $6 million (2020 - $2 million and $7 million) of capitalized interest during construction for the second quarter and first six months of 2021.

(3) Includes $51 million and $107 million for the second quarter and first six months of 2021 (2020 - $21 million and $47 million) of capital investment, mainly in the Utilities, that were funded with the assistance of customer contributions.

Base Shelf Prospectus - CU Inc. Debentures and Preferred Shares

On September 16, 2020, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.2 billion of debentures over the 25-month life of the prospectus. As of June 30, 2021, aggregate issuances of debentures were $150 million.

Effective June 1, 2021, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset from 2.24 per cent to 2.29 per cent for the next five-year period.

Dividends and Common Shares

We have increased our common share dividend each year since 1972, a 49-year track record. Dividends paid to Class A and Class B share owners totaled $120 million in the second quarter of 2021 and $240 million in the first six months of 2021.

On July 21, 2021, the Board of Directors declared a third quarter dividend of 43.98 cents per share. The payment of any dividend is at the discretion of the Board of Directors and depends on our financial condition and other factors.

Normal Course Issuer Bid

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

On July 22, 2020, we commenced a normal course issuer bid to purchase up to 3,996,004 outstanding Class A shares. This bid expired on July 21, 2021. During this period, 3,996,004 shares were purchased for $132 million, of which 1,730,404 shares for $61 million were purchased in the second quarter of 2021.

On July 29, 2021, we commenced a normal course issuer bid to purchase up to 3,930,623 outstanding Class A shares. The bid will expire on July 28, 2022. To date, no shares have been purchased.

SHARE CAPITAL

Canadian Utilities' equity securities consist of Class A shares and Class B shares.

At July 27, 2021, we had outstanding 196,532,097 Class A shares, 72,763,274 Class B shares, and options to purchase 1,739,100 Class A shares.

CLASS A NON-VOTING SHARES AND CLASS B COMMON SHARES

Class A and Class B share owners are entitled to share equally, on a share for share basis, in all dividends the Company declares on either of such classes of shares as well as in the Company's remaining property on dissolution. Class B share owners are entitled to vote and to exchange at any time each share held for one Class A share.

If a take-over bid is made for the Class B shares and if it would result in the offeror owning more than 50 per cent of the outstanding Class B shares (excluding any Class B shares acquired upon conversion of Class A shares), the Class A share owners are entitled, for the duration of the take-over bid, to exchange their Class A shares for Class B shares and to tender the newly exchanged Class B shares to the take-over bid. Such right of exchange and tender is conditional on completion of the applicable take-over bid.

In addition, Class A share owners are entitled to exchange their shares for Class B shares if ATCO Ltd., the Company's controlling share owner, ceases to own or control, directly or indirectly, more than 10,000,000 of the issued and outstanding Class B shares. In either case, each Class A share is exchangeable for one Class B share, subject to changes in the exchange ratio for certain events such as a stock split or rights offering.

Of the 12,800,000 Class A shares authorized for grant of options under our stock option plan, 4,055,100 Class A shares were available for issuance at June 30, 2021. Options may be granted to officers and key employees of the Company and its subsidiaries at an exercise price equal to the weighted average of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the grant date. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the time of grant.

QUARTERLY INFORMATION

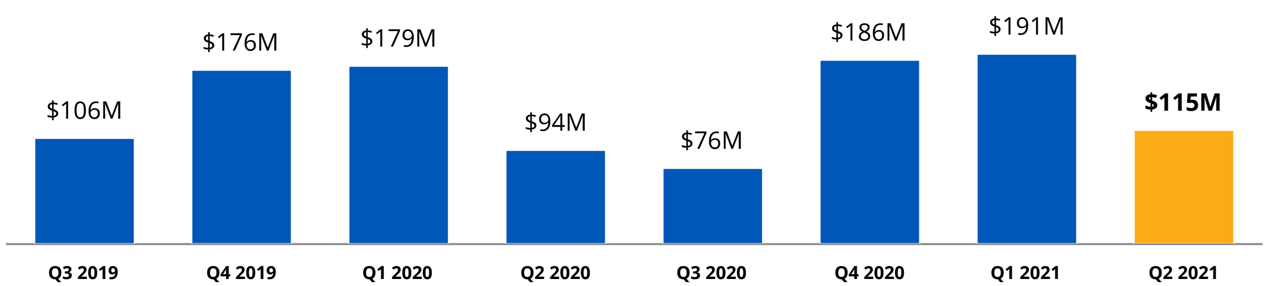
The following table shows financial information for the eight quarters ended September 30, 2019 through June 30, 2021.

($ millions, except for per share data)	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Revenues	727	881	907	**790**
Earnings attributable to equity owners of the Company	91	104	141	**5**
Earnings (loss) attributable to Class A and B shares	74	87	124	**(11)**
Earnings (loss) per Class A and Class B share *($)*	0.27	0.32	0.46	**(0.04)**
Diluted earnings (loss) per Class A and Class B share *($)*	0.27	0.32	0.46	**(0.04)**
Adjusted earnings per Class A and Class B share *($)*	0.28	0.68	0.70	**0.43**
Adjusted earnings (loss)				
Utilities	89	195	201	**124**
Energy Infrastructure	7	12	10	**7**
Corporate & Other and Intersegment Eliminations	(20)	(21)	(20)	**(16)**
Total adjusted earnings	76	186	191	**115**

($ millions, except for per share data)	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenues	885	929	885	740
Earnings attributable to equity owners of the Company	284	151	160	72
Earnings attributable to Class A and Class B shares	267	134	143	56
Earnings per Class A and Class B share *($)*	0.99	0.49	0.52	0.21
Diluted earnings per Class A and Class B share *($)*	0.99	0.49	0.52	0.21
Adjusted earnings per Class A and Class B share *($)*	0.39	0.65	0.66	0.34
Adjusted earnings (loss)				
Utilities	91	176	189	111
Energy Infrastructure	40	16	5	4
Corporate & Other and Intersegment Eliminations	(25)	(16)	(15)	(21)
Total adjusted earnings	106	176	179	94

Our financial results for the previous eight quarters reflect the timing of utility regulatory decisions, and the seasonal nature of demand for natural gas and electricity.

ADJUSTED EARNINGS



Adjusted earnings in the second and third quarters of each year are impacted by lower seasonal demand in the Natural Gas Distribution business. Adjusted earnings in the fourth quarter of 2020 and first quarter of 2021 were higher compared to the same periods in 2019 and 2020 mainly due to continued cost efficiencies, rate base growth, and earnings from International Electricity Operations.

Adjusted earnings in the second quarter of 2021 were higher compared to the same period in 2020 mainly due to earnings from International Electricity Operations and a return to more stable levels of inflation in Australia, which positively impacted earnings in the International Natural Gas Distribution business.

EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

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

- In the third and fourth quarters of 2019, Canadian Utilities closed a series of transactions related to the sale of its Canadian fossil fuel-based electricity generation business and Alberta PowerLine resulting in a gain on sale of operations of $125 million (after-tax).
- 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 for the Company.
- Early Termination of the Master Service Agreements for Managed IT Services
    - In the fourth quarter of 2020 and first quarter of 2021, the Company signed MSAs with IBM Canada Ltd. and IBM Australia Limited, respectively, to provide managed information technology services. These services are currently provided by Wipro under a ten-year MSA expiring in December 2024. The Company recognized termination costs of $55 million and $4 million (after-tax) in the fourth quarter of 2020 and first quarter of 2021, respectively, which represents managements' best estimate of the costs to exit the Wipro MSA. The actual costs will be finalized later in 2021.
    - 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 the first and second quarters of 2021, the Company recognized transition costs of $7 million and $16 million (after-tax), respectively.
- In the second quarter of 2021, impairments and other costs not in the normal course of business of $65 million (after-tax) were recorded. The Company incurred $54 million of these costs in Mexico, related mainly to its Veracruz hydro facility within its Energy Infrastructure segment. The charge reflects an adverse arbitration decision, changes in market regulations, ongoing political uncertainty, and a challenging operating environment, resulting in an impairment of the carrying value of the assets. Other costs recorded were individually immaterial.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Adjusted earnings are defined as earnings attributable to equity owners of the Company after adjusting for the timing of revenues and expenses associated with rate-regulated activities, dividends on equity preferred shares of the Company, and unrealized gains or losses on mark-to-market forward and swap commodity contracts. Adjusted earnings also exclude 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 present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the US accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings attributable to equity owners of the Company is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 of the unaudited interim consolidated financial statements.

Adjusted earnings per Class A and Class B share is calculated by dividing adjusted earnings by the weighted average number of shares outstanding for the period.

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

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

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY

Adjusted earnings are earnings attributable to equity owners of the Company after adjusting for the timing of revenues and expenses associated with rate-regulated activities, dividends on equity preferred shares of the Company, and unrealized gains or losses on mark-to-market forward and swap commodity contracts. Adjusted earnings also exclude 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 that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada and Australia than IFRS earnings.

($ millions)					Three Months Ended June 30
2021 2020	Utilities	Energy Infrastructure	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**688**	**39**	**76**	**(13)**	**790**
	685	44	36	(25)	740
Adjusted earnings (loss)	**124**	**7**	**(16)**	**—**	**115**
	111	4	(21)	—	94
Impairment and other costs	**—**	**(64)**	**(1)**	**—**	**(65)**
	(8)	(3)	(19)	—	(30)
Unrealized (losses) gains 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)
Transition of managed IT services	**(14)**	**(1)**	**(1)**	**—**	**(16)**
	—	—	—	—	—
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

($ millions)					Six Months Ended June 30
2021 / 2020	Utilities	Energy Infrastructure	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**1,478**	**91**	**169**	**(41)**	**1,697**
	1,478	90	109	(52)	1,625
Adjusted earnings (loss)	**325**	**17**	**(36)**	**—**	**306**
	300	9	(36)	—	273
Impairment and other costs	**—**	**(64)**	**(1)**	**—**	**(65)**
	(8)	(3)	(19)	—	(30)
Unrealized (losses) gains on mark-to-market forward and swap commodity contract	**—**	**—**	**(12)**	**—**	**(12)**
	—	(2)	11	—	9
Rate-regulated activities	**(81)**	**—**	**—**	**—**	**(81)**
	(44)	—	1	3	(40)
IT Common Matters decision	**(7)**	**—**	**—**	**—**	**(7)**
	(7)	—	—	—	(7)
Transition of managed IT services	**(24)**	**(1)**	**(2)**	**—**	**(27)**
	—	—	—	—	—
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

IMPAIRMENT AND OTHER COSTS

In the second quarter of 2021, impairments and other costs not in the normal course of business of $65 million (after-tax) were recorded. The Company incurred $54 million of these costs in Mexico, related mainly to its Veracruz hydro facility within its Energy Infrastructure segment. The charge reflects an adverse arbitration decision, changes in market regulations, ongoing political uncertainty, and a challenging operating environment, resulting in an impairment of the carrying value of the assets. Other costs recorded were individually immaterial.

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

Electricity Distribution and Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as Natural Gas Distribution, Natural Gas Transmission, and International Natural Gas Distribution are collectively referred to as the Regulated 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 Regulated Utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Regulated Utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

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

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

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

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

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**29**	17	12	**58**	39	19
Impact of colder temperatures (2)	**1**	4	(3)	**—**	9	(9)
Revenues to be billed in future periods						
Deferred income taxes (3)	**(30)**	(22)	(8)	**(55)**	(56)	1
Distribution rate relief (4)	**(34)**	—	(34)	**(75)**	—	(75)
Impact of warmer temperatures (2)	**—**	—	—	**(1)**	—	(1)
Impact of inflation on rate base (5)	**(3)**	(1)	(2)	**(10)**	(4)	(6)
Settlement of regulatory decisions and other items (6)	**8**	(7)	15	**2**	(28)	30
	(29)	(9)	(20)	**(81)**	(40)	(41)

(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 International Natural Gas Distribution's 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 (after-tax) (2020 - $3 million and $7 million).

TRANSITION OF MANAGED IT SERVICES

In the fourth quarter of 2020 and first quarter of 2021, the Company signed MSAs with IBM Canada Ltd. and IBM Australia Limited, respectively, to provide managed IT services. These services are currently provided by 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 the second quarter and first six months of 2021,the Company recognized termination and transition costs of $16 million and $27 million (after-tax).

OTHER

The Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. In the second quarter and first six months of 2021, the Company recorded a foreign exchange loss of nil and $1 million (after-tax) (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.

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

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

($ millions)

2021 2020	**Three Months Ended June 30**	**Six Months Ended June 30**
Funds generated by operations	**362**	**805**
	343	809
Changes in non-cash working capital	**15**	**83**
	84	107
Cash flows from operating activities	**377**	**888**
	427	916

RECONCILIATION OF CAPITAL INVESTMENT TO CAPITAL EXPENDITURES

Capital investment is defined as cash used for capital expenditures, business combinations, and cash used in the Company's proportional share of capital expenditures in joint ventures. In management's opinion, capital investment reflects the Company's total cash investment in assets. Capital expenditures includes additions to property, plant and equipment and intangibles as well as interest capitalized during construction.

($ millions)				**Three Months Ended June 30**
2021 2020	**Utilities**	**Energy Infrastructure**	**CUL Corporate & Other**	**Consolidated**
Capital Investment	**412**	**15**	**3**	**430**
	180	8	2	190
Capital Expenditure in joint ventures	**—**	**(9)**	**—**	**(9)**
	—	(3)	—	(3)
Capital Expenditures	**412**	**6**	**3**	**421**
	180	5	2	187

($ millions)				**Six Months Ended June 30**
2021 2020	**Utilities**	**Energy Infrastructure**	**CUL Corporate & Other**	**Consolidated**
Capital Investment	**632**	**23**	**5**	**660**
	429	16	4	449
Capital Expenditure in joint ventures	**—**	**(14)**	**—**	**(14)**
	—	(5)	—	(5)
Capital Expenditures	**632**	**9**	**5**	**646**
	429	11	4	444

OTHER FINANCIAL INFORMATION

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company’s internal control over financial reporting that occurred during the period beginning on April 1, 2021, and ended on June 30, 2021, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

FORWARD-LOOKING INFORMATION

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

The Company’s actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions (including as may be affected by the COVID-19 pandemic) and other factors, many of which are beyond the control of the Company.

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

ADDITIONAL INFORMATION

Canadian Utilities has published its unaudited interim consolidated financial statements and MD&A for the six months ended June 30, 2021. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

Alberta Utilities means Electricity Distribution, Electricity Transmission, Natural Gas Distribution and Natural Gas Transmission.

AUC means the Alberta Utilities Commission.

Class A shares means Class A non-voting shares of the Company.

Class B shares means Class B common shares of the Company.

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

Company means Canadian Utilities Limited and, unless the context otherwise requires, includes its subsidiaries and joint arrangements.

Customer Contributions are non-refundable cash contributions made by customers for certain additions to property, plant and equipment, mainly in the Utilities. These contributions are made when the estimated revenue is less than the cost of providing service.

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

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

IFRS means International Financial Reporting Standards.

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

PBR means Performance Based Regulation.

Regulated Utilities means Electricity Distribution, Electricity Transmission, Natural Gas Distribution, Natural Gas Transmission and International Natural Gas Distribution.