



**CANADIAN UTILITIES LIMITED**  
An **ATCO** Company

CANADIAN UTILITIES LIMITED  
CONSOLIDATED  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

[Original signed by N.C. Southern]

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Chair & Chief Executive Officer

[Original signed by B.P. Shkrobot]

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Executive Vice President & Chief Financial Officer

February 23, 2022



## Independent auditor's report

To the Share Owners of Canadian Utilities Limited

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canadian Utilities Limited and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of earnings for the years ended December 31, 2021 and 2020;
- the consolidated statements of comprehensive income for the years ended December 31, 2021 and 2020;
- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of changes in equity for the years ended December 31, 2021 and 2020;
- the consolidated statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

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

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

### Independence

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

PricewaterhouseCoopers LLP

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



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Assessment of retirement benefit obligations</b></p> <p><i>Refer to note 14 – Retirement Benefits and note 23 – Significant Judgments, Estimates and Assumptions to the consolidated financial statements.</i></p> <p>The Company maintains registered defined benefit or defined contribution pension plans for most of its employees. It also provides other post-employment benefits for retirees and their dependents. The Company accrues for its obligations under defined benefit pension and other post-employment benefits plans (the retirement benefit obligations). As at December 31, 2021, total accrued benefit obligations were \$3,173 million and the market value of plan assets was \$2,992 million. These balances are presented net on the consolidated balance sheet, resulting in retirement benefit asset of \$87 million and retirement benefit obligations of \$268 million.</p> <p>In determining the retirement benefit obligations, management consults with independent actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. The significant assumptions used by management in determining the Company's retirement benefit obligations include discount rate, long-term inflation rate, future compensation rates, health care cost trend rates and life expectancy rates.</p> <p>We determined that this is a key audit matter due to the significance of the retirement benefit obligations and the significant judgment made by management in estimating the Company's retirement benefit obligations. In addition, our audit effort involved the use of professionals with specialized skill and knowledge in the field of actuarial services.</p>	<p>Our approach to addressing the matter involved the following procedures, among others:</p> <ul style="list-style-type: none"> <li>• Tested how management determined the retirement benefit obligations, which included the following: <ul style="list-style-type: none"> <li>– Utilized professionals with specialized skill and knowledge in the field of actuarial services, who assisted in testing management's process for estimating the total accrued benefit obligations, appropriateness of the methodology and assessed the reasonableness of management's assumptions such as: discount rate, long-term inflation rate, future compensation rates, health care costs trend rates and life expectancy rates;</li> <li>– Tested certain underlying data used in the determination of retirement benefit obligations; and</li> <li>– The work of management's independent actuaries was used in performing the procedures to evaluate the reasonableness of the retirement benefit obligations. As a basis for using this work, the competence, capabilities and objectivity of management's independent actuaries were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's independent actuaries, tests of the data used by management's independent actuaries and an evaluation of their findings.</li> </ul> </li> <li>• Tested disclosures related to the sensitivity assumptions used in estimating retirement benefit obligations.</li> </ul>



#### Key audit matter

#### Assessment of unbilled revenue related to the Utilities segment

Refer to note 4 – Revenues and note 23 – Significant Judgments, Estimates and Assumptions to the consolidated financial statements.

The Company had \$156 million of unbilled revenue related to the Utilities segment as at December 31, 2021.

The revenue recognized by the Company includes an estimate of consumption by customers of natural gas and electricity that has not yet been billed (unbilled revenue).

The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is based on historical consumption patterns. Management applies judgment to the measurement and value of the estimated consumption.

We determined that this is a key audit matter due to (i) the significance of the unbilled revenue, (ii) the judgment applied by management to estimate the consumption and (iii) the significant auditor effort in performing procedures to test the estimated amount of unbilled revenue.

#### How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Tested the reasonableness of the estimate of unbilled revenue through evidence obtained from events occurring up to the date of the auditor's report, which included the following:
  - Tested a sample of billings made after December 31, 2021 and compared the relevant amounts of these billings to the corresponding estimate of unbilled revenue recorded.
  - Agreed the pricing applied to a sample of billings to externally published rates.
- Tested the operating effectiveness of internal controls relating to unbilled revenue, including information technology (IT) general controls of the relevant IT systems that management uses for meter readings and billings.

#### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

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

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



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Shannon Ryhorchuk.

[Original signed by “PricewaterhouseCoopers LLP”]

Chartered Professional Accountants

Calgary, Alberta  
February 23, 2022



# CONSOLIDATED STATEMENTS OF EARNINGS

		Year Ended December 31	
<i>(millions of Canadian Dollars except per share data)</i>	Note	2021	2020
<b>Revenues</b>	4	<b>3,515</b>	3,233
<b>Costs and expenses</b>			
Salaries, wages and benefits		(362)	(341)
Energy transmission and transportation		(266)	(225)
Plant and equipment maintenance		(203)	(196)
Fuel costs		(116)	(86)
Purchased power		(296)	(211)
Depreciation, amortization and impairment	10,11,16	(651)	(610)
Franchise fees		(263)	(243)
Property and other taxes		(70)	(68)
Other	5	(406)	(312)
		<b>(2,633)</b>	<b>(2,292)</b>
<b>Earnings from investment in joint ventures</b>	26	<b>58</b>	31
<b>Operating profit</b>		<b>940</b>	972
Interest income		11	15
Interest expense	6	(413)	(401)
<b>Net finance costs</b>		<b>(402)</b>	<b>(386)</b>
<b>Earnings before income taxes</b>		<b>538</b>	586
<b>Income tax expense</b>	7	<b>(138)</b>	(152)
<b>Earnings for the year</b>		<b>400</b>	434
<b>Earnings attributable to:</b>			
Equity owners of the Company		393	427
Non-controlling interests	27	7	7
		<b>400</b>	434
<b>Earnings per Class A and Class B share</b>	8	<b>\$1.21</b>	\$1.32
<b>Diluted earnings per Class A and Class B share</b>	8	<b>\$1.21</b>	\$1.32

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2021	2020
<b>Earnings for the year</b>		<b>400</b>	434
<b>Other comprehensive income, net of income taxes</b>			
<i>Items that will not be reclassified to earnings:</i>			
Re-measurement of retirement benefits <sup>(1)</sup>	14	<b>181</b>	–
<i>Items that are or may be reclassified subsequently to earnings:</i>			
Cash flow hedges <sup>(2)</sup>		<b>57</b>	(9)
Foreign currency translation adjustment <sup>(3)</sup>		<b>(49)</b>	26
		<b>8</b>	17
<b>Other comprehensive income</b>		<b>189</b>	17
<b>Comprehensive income for the year</b>		<b>589</b>	451
<b>Comprehensive income attributable to:</b>			
Equity owners of the Company		<b>582</b>	444
Non-controlling interests		<b>7</b>	7
		<b>589</b>	451

(1) Net of income taxes of \$(54) million for the year ended December 31, 2021 (2020 - nil).

(2) Net of income taxes of \$(19) million for the year ended December 31, 2021 (2020 - \$5 million).

(3) Net of income taxes of nil.

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED BALANCE SHEETS

December 31

<i>(millions of Canadian Dollars)</i>	Note	2021	2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	19	753	781
Accounts receivable and contract assets	15	759	649
Finance lease receivables	16	10	9
Inventories	9	21	28
Prepaid expenses and other current assets	10	188	92
		<b>1,731</b>	1,559
<b>Non-current assets</b>			
Property, plant and equipment	10	18,008	17,563
Intangibles	11	726	656
Retirement benefit asset	14	87	–
Right-of-use assets	16	51	56
Investment in joint ventures	26	204	165
Finance lease receivables	16	149	164
Deferred income tax assets	7	33	72
Other assets		86	61
<b>Total assets</b>		<b>21,075</b>	20,296
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank indebtedness	19	3	3
Accounts payable and accrued liabilities		739	549
Lease liabilities	16	7	9
Provisions and other current liabilities	3	132	129
Short-term debt	12	206	–
Long-term debt	13	331	166
		<b>1,418</b>	856
<b>Non-current liabilities</b>			
Deferred income tax liabilities	7	1,588	1,416
Retirement benefit obligations	14	268	411
Customer contributions	15	1,870	1,756
Lease liabilities	16	44	47
Other liabilities		88	115
Long-term debt	13	8,977	8,887
<b>Total liabilities</b>		<b>14,253</b>	13,488
<b>EQUITY</b>			
Equity preferred shares	17	1,571	1,483
<b>Class A and Class B share owners' equity</b>			
Class A and Class B shares	18	1,216	1,232
Contributed surplus		8	8
Retained earnings		3,862	3,928
Accumulated other comprehensive loss		(22)	(30)
<b>Total equity attributable to equity owners of the Company</b>		<b>6,635</b>	6,621
<b>Non-controlling interests</b>	27	187	187
<b>Total equity</b>		<b>6,822</b>	6,808
<b>Total liabilities and equity</b>		<b>21,075</b>	20,296

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]

DIRECTOR

[Original signed by R.J. Normand]

DIRECTOR

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Attributable to Equity Owners of the Company						Non-Controlling Interests	Total Equity
		Class A and Class B Shares	Equity Preferred Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total		
December 31, 2019		1,228	1,483	16	4,054	(47)	6,734	187	6,921
Earnings for the year		-	-	-	427	-	427	7	434
Other comprehensive income		-	-	-	-	17	17	-	17
Shares issued	18	1	-	-	-	-	1	-	1
Shares redeemed	18	(2)	-	-	(11)	-	(13)	-	(13)
Dividends	17,18	-	-	-	(544)	-	(544)	(7)	(551)
Share-based compensation	28	5	-	(8)	-	-	(3)	-	(3)
Other		-	-	-	2	-	2	-	2
December 31, 2020		1,232	1,483	8	3,928	(30)	6,621	187	6,808
Earnings for the year		-	-	-	393	-	393	7	400
Other comprehensive income		-	-	-	-	189	189	-	189
Gains on retirement benefits transferred to retained earnings	14	-	-	-	181	(181)	-	-	-
Shares issued	17,18	2	198	-	-	-	200	-	200
Shares redeemed	17,18	(20)	(110)	-	(99)	-	(229)	-	(229)
Dividends	17,18	-	-	-	(541)	-	(541)	(7)	(548)
Share-based compensation	28	2	-	-	-	-	2	-	2
December 31, 2021		1,216	1,571	8	3,862	(22)	6,635	187	6,822

See accompanying Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year Ended December 31	
<i>(millions of Canadian Dollars)</i>	Note	2021	2020
<b>Operating activities</b>			
Earnings for the year		400	434
Adjustments to reconcile earnings to cash flows from operating activities	19	1,270	1,194
Changes in non-cash working capital	19	48	3
<b>Cash flows from operating activities</b>		<b>1,718</b>	1,631
<b>Investing activities</b>			
Additions to property, plant and equipment		(1,078)	(803)
Proceeds on disposal of property, plant and equipment		30	6
Additions to intangibles		(143)	(87)
Acquisition, net of cash acquired	24	(84)	-
Investment in joint ventures	26	(27)	(9)
Changes in non-cash working capital	19	8	(4)
Other	3, 10	32	(8)
<b>Cash flows used in investing activities</b>		<b>(1,262)</b>	(905)
<b>Financing activities</b>			
Issue of short-term debt	12	206	-
Issue of long-term debt	13,19	461	209
Repayment of long-term debt	13,19	(167)	(163)
Issue of equity preferred shares	17	201	-
Redemption of equity preferred shares	17	(110)	-
Repayment of lease liabilities	16	(10)	(11)
Net purchase of Class A shares	18	(117)	(12)
Dividends paid on equity preferred shares	17	(65)	(67)
Dividends paid to non-controlling interests	27	(7)	(7)
Dividends paid to Class A and Class B share owners	18	(476)	(477)
Interest paid		(385)	(393)
Other		(9)	(3)
<b>Cash flows used in financing activities</b>		<b>(478)</b>	(924)
<b>Decrease in cash position <sup>(1)</sup></b>		<b>(22)</b>	(198)
Foreign currency translation		(6)	(1)
Beginning of year		778	977
<b>End of year</b>	19	<b>750</b>	778

(1) Cash position includes \$7 million which is not available for general use by the Company (2020 - \$5 million).

See accompanying Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**DECEMBER 31, 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 and whole-home solutions) (included in the Corporate & Other segment).

The consolidated financial statements include the accounts of Canadian Utilities Limited and its subsidiaries (see Note 25), and the accounts of a proportionate share of the Company's investment in joint ventures (see Note 26). In these financial statements, "the Company" means Canadian Utilities Limited, its subsidiaries and joint arrangements.

## **2. BASIS OF PRESENTATION**

### **STATEMENT OF COMPLIANCE**

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC).

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 23, 2022.

### **BASIS OF MEASUREMENT**

The consolidated financial statements are prepared on a historic cost basis, except for derivative financial instruments, retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 32.

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

### **FUNCTIONAL AND PRESENTATION CURRENCY**

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

### **USE OF JUDGMENTS AND ESTIMATES**

Management makes judgments and estimates that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these judgments and estimates concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, estimates and assumptions are described in Note 23.

## ADOPTION OF NEW ACCOUNTING INTERPRETATION

In April 2021, the IFRS Interpretations Committee published a final agenda decision with respect to recognition of certain configuration and customization expenditures related to cloud computing with retrospective application. Costs that do not meet the capitalization criteria should be expensed as incurred. Any changes resulting from the decision were required to be implemented by December 31, 2021.

The analysis of the impacts of the decision did not result in a material change to the consolidated financial statements for the year ended December 31, 2021.

## 3. SEGMENTED INFORMATION

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

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

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

The descriptions and principal operating activities of the segments are as follows:

<b>Utilities</b>	<b>Electricity</b>	The Utilities (Electricity) segment includes ATCO Electric, which provides regulated electricity transmission and distribution services in northern and central east Alberta, the Yukon, and the Northwest Territories, and the Company's 50 per cent ownership interest in LUMA Energy LLC which provides international electricity operations (see Note 26).
	<b>Natural Gas</b>	The Utilities (Natural Gas) segment includes ATCO Gas, ATCO Pipelines and ATCO Gas Australia. These businesses provide integrated natural gas transmission and distribution services throughout Alberta, in the Lloydminster area of Saskatchewan and in Western Australia.
<b>Energy Infrastructure</b>		The Energy Infrastructure segment includes ATCO Power (2010), ATCO Energy Solutions and ATCO Power Australia. Together these businesses provide electricity generation, natural gas storage, industrial water solutions and related infrastructure development throughout Alberta, the Yukon, the Northwest Territories, Australia, Mexico and Chile.
<b>Corporate &amp; Other</b>		Canadian Utilities Limited Corporate & Other includes intersegment eliminations and ATCO Energy, a retail electricity and natural gas business, and a whole-home solution provider.

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

2021	Utilities				Energy Infrastructure	Corporate & Other	Intersegment eliminations	Consolidated
	2020	Electricity	Natural Gas	Eliminations				
Revenues - external	<b>1,402</b>	<b>1,628</b>	-	<b>3,030</b>	<b>162</b>	<b>323</b>	-	<b>3,515</b>
	1,368	1,539	-	2,907	149	177	-	3,233
Revenues - intersegment	<b>12</b>	<b>4</b>	<b>(5)</b>	<b>11</b>	<b>47</b>	<b>28</b>	<b>(86)</b>	-
	19	9	(3)	25	46	30	(101)	-
Revenues	<b>1,414</b>	<b>1,632</b>	<b>(5)</b>	<b>3,041</b>	<b>209</b>	<b>351</b>	<b>(86)</b>	<b>3,515</b>
	1,387	1,548	(3)	2,932	195	207	(101)	3,233
Operating expenses <sup>(1)</sup>	<b>(575)</b>	<b>(943)</b>	<b>5</b>	<b>(1,513)</b>	<b>(180)</b>	<b>(375)</b>	<b>86</b>	<b>(1,982)</b>
	(545)	(866)	3	(1,408)	(159)	(207)	92	(1,682)
Depreciation, amortization and impairment	<b>(322)</b>	<b>(277)</b>	-	<b>(599)</b>	<b>(42)</b>	<b>(10)</b>	-	<b>(651)</b>
	(309)	(259)	-	(568)	(20)	(31)	9	(610)
Earnings from investment in joint ventures	<b>47</b>	-	-	<b>47</b>	<b>11</b>	-	-	<b>58</b>
	14	-	-	14	17	-	-	31
Net finance costs	<b>(232)</b>	<b>(149)</b>	-	<b>(381)</b>	<b>(18)</b>	<b>(3)</b>	-	<b>(402)</b>
	(229)	(144)	-	(373)	(10)	(3)	-	(386)
Earnings (loss) before income taxes	<b>332</b>	<b>263</b>	-	<b>595</b>	<b>(20)</b>	<b>(37)</b>	-	<b>538</b>
	318	279	-	597	23	(34)	-	586
Income tax (expense) recovery	<b>(71)</b>	<b>(65)</b>	-	<b>(136)</b>	<b>(6)</b>	<b>4</b>	-	<b>(138)</b>
	(77)	(68)	-	(145)	(7)	-	-	(152)
Earnings (loss) for the year	<b>261</b>	<b>198</b>	-	<b>459</b>	<b>(26)</b>	<b>(33)</b>	-	<b>400</b>
	241	211	-	452	16	(34)	-	434
Adjusted earnings (loss)	<b>347</b>	<b>288</b>	-	<b>635</b>	<b>28</b>	<b>(77)</b>	-	<b>586</b>
	318	266	-	584	28	(77)	-	535
Total assets	<b>10,405</b>	<b>8,581</b>	<b>(2)</b>	<b>18,984</b>	<b>1,194</b>	<b>1,103</b>	<b>(206)</b>	<b>21,075</b>
	10,326	7,985	(1)	18,310	993	1,090	(97)	20,296
Capital expenditures <sup>(2)</sup>	<b>350</b>	<b>747</b>	-	<b>1,097</b>	<b>120</b>	<b>10</b>	-	<b>1,227</b>
	366	510	-	876	19	8	-	903

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

(2) Includes additions to property, plant and equipment, intangibles and \$6 million of interest capitalized during construction for the year ended December 31, 2021 (2020 - \$13 million).

## GEOGRAPHIC SEGMENTS

Financial information by geographic area is summarized below.

### Revenues - external

	2021	2020
Canada	<b>3,262</b>	3,005
Australia	<b>200</b>	191
Other	<b>53</b>	37
Total	<b>3,515</b>	3,233



## Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets <sup>(1)</sup>		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Canada	<b>16,698</b>	16,116	<b>715</b>	642	<b>221</b>	218	<b>17,634</b>	16,976
Australia	<b>1,242</b>	1,272	<b>11</b>	13	<b>17</b>	25	<b>1,270</b>	1,310
Other	<b>68</b>	175	<b>-</b>	1	<b>55</b>	23	<b>123</b>	199
Total	<b>18,008</b>	17,563	<b>726</b>	656	<b>293</b>	266	<b>19,027</b>	18,485

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

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

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

2021					
2020	Utilities	Energy Infrastructure	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings (loss)	635	28	(77)	–	586
	584	28	(77)	–	535
Transition of managed IT services	(39)	(1)	(2)	–	(42)
	(52)	(1)	(2)	–	(55)
AUC enforcement proceeding	(14)	–	–	–	(14)
	–	–	–	–	–
Impairment and other costs	–	(64)	(1)	–	(65)
	(8)	(3)	(19)	–	(30)
Unrealized losses on mark-to-market forward and swap commodity contracts	–	(2)	(16)	–	(18)
	–	(4)	(4)	–	(8)
Rate-regulated activities	(118)	–	–	–	(118)
	(65)	–	6	–	(59)
Project cost recovery	–	17	–	–	17
	–	–	–	–	–
IT Common Matters decision	(14)	–	–	–	(14)
	(19)	–	–	–	(19)
Dividends on equity preferred shares of Canadian Utilities Limited	2	–	63	–	65
	5	–	62	–	67
Other	–	(4)	–	–	(4)
	–	(4)	–	–	(4)
Earnings (loss) attributable to equity owners of the Company	452	(26)	(33)	–	393
	445	16	(34)	–	427
Earnings attributable to non-controlling interests					7
					7
Earnings for the year					400
					434

### **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. (subsequently novated to Kyndryl Canada Ltd.) and IBM Australia Limited (IBM), respectively, to provide managed information technology (IT) services. These services were previously 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 was complete at December 31, 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 year ended December 31, 2021. The onerous contract provision is not in the normal course of business and has been excluded from adjusted earnings.

In addition, the Company recognized transition costs of \$49 million (\$38 million after-tax) in 2021. The transition costs related 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.

### **Alberta Utilities Commission (AUC) enforcement proceeding**

On November 29, 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. This proceeding is to determine whether ATCO Electric Transmission failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the sole source contract for the Jasper interconnection project and the actions leading up to and including the filing of the 2018-2020 Deferral Account Application. This proceeding will also determine any future remedies that may be required.

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of \$16 million (\$14 million after-tax) related to the potential outcome of the proceeding. As this proceeding is not in the normal course of business, these costs have been excluded from adjusted earnings.

#### ***Impairment and other costs recorded in 2021***

In 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 a 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. 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 2020***

In 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 five per cent working interest in oil and gas assets in Northern Canada. With oil price volatility and the COVID-19 pandemic continuing to cause economic uncertainty, an impairment of \$18 million was recorded in 2020, reflecting the reduced likelihood of future recovery of these costs. The fair value measurement was categorized as level 3 on the fair value hierarchy. The recoverable amount of the oil and gas assets was estimated to be nil.

The remaining costs mainly 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 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:

<b>Timing Adjustment</b>	<b>Items</b>	<b>RRA Treatment</b>	<b>IFRS Treatment</b>
1. Additional revenues billed in current year	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2. Revenues to be billed in future years	Deferred income taxes, 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 years.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior years when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4. Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

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

	2021	2020
<i>Additional revenues billed in current period</i>		
Future removal and site restoration costs <sup>(1)</sup>	107	78
Impact of colder temperatures <sup>(2)</sup>	-	2
<i>Revenues to be billed in future periods</i>		
Deferred income taxes <sup>(3)</sup>	(105)	(105)
Distribution rate relief <sup>(4)</sup>	(119)	-
Impact of warmer temperatures <sup>(2)</sup>	(1)	-
Impact of inflation on rate base <sup>(5)</sup>	(31)	(6)
<i>Settlement of regulatory decisions and other items</i> <sup>(6)</sup>	31	(28)
	<b>(118)</b>	<b>(59)</b>

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

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

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

(4) In 2021, in response to the ongoing COVID-19 Pandemic, ATCO Electric Distribution and ATCO Gas Distribution applied for interim rate relief for customers to hold current distribution base rates in place. Following approval by the AUC, ATCO Electric Distribution and ATCO Gas Distribution recorded a decrease in earnings of \$119 million. 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 years based on the actual or forecasted annual rate of inflation. Under rate-regulated accounting, revenue is recognized in the current year 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 2021, ATCO Gas Distribution collected \$53 million related to depreciation and transmission rate riders, which was partly offset by a decrease in earnings of \$28 million related to payments of transmission costs. In 2020, ATCO Electric Distribution recorded a decrease in earnings of \$26 million related to payments to customers for transmission costs and capital related items.

### **Project cost recovery**

During the fourth quarter of 2021, the Company recorded earnings of \$17 million (\$110 million in project costs recovered net of abandonment costs, accretion and income taxes of \$93 million) following the conclusion of the Company's involvement in an international project. As these are not a result of day-to-day operations they have been excluded from adjusted earnings.

### **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 2021 was \$14 million (2020 - \$19 million).

### **Other**

The Company adjusts the deferred tax asset which was recognized as a result of the 2015 Tula Pipeline Project impairment. In 2021, the Company recorded a foreign exchange loss of \$4 million after-tax (2020 - a foreign exchange loss of \$4 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 year ended December 31 is shown below:

2021	Utilities			Energy Infrastructure	Corporate & Other	Consolidated
	Electricity <sup>(1)</sup>	Natural Gas <sup>(1)</sup>	Total			
2020						
<b>Revenue Streams</b>						
<b>Rendering of Services</b>						
Distribution services	<b>548</b>	<b>1,036</b>	<b>1,584</b>	-	-	<b>1,584</b>
	531	969	1,500	-	-	1,500
Transmission services	<b>712</b>	<b>308</b>	<b>1,020</b>	-	-	<b>1,020</b>
	716	296	1,012	-	-	1,012
Customer contributions	<b>33</b>	<b>22</b>	<b>55</b>	-	-	<b>55</b>
	34	22	56	-	-	56
Franchise fees	<b>34</b>	<b>229</b>	<b>263</b>	-	-	<b>263</b>
	31	212	243	-	-	243
Retail electricity and natural gas services	-	-	-	-	<b>304</b>	<b>304</b>
	-	-	-	-	162	162
Storage and industrial water	-	-	-	<b>28</b>	-	<b>28</b>
	-	-	-	27	-	27
Total rendering of services	<b>1,327</b>	<b>1,595</b>	<b>2,922</b>	<b>28</b>	<b>304</b>	<b>3,254</b>
	1,312	1,499	2,811	27	162	3,000
<b>Sale of Goods</b>						
Electricity generation and delivery	-	-	-	<b>38</b>	-	<b>38</b>
	-	-	-	31	-	31
Commodity sales	-	-	-	<b>52</b>	-	<b>52</b>
	-	-	-	28	-	28
Total sale of goods	-	-	-	<b>90</b>	-	<b>90</b>
	-	-	-	59	-	59
<b>Lease income</b>						
Finance lease	-	-	-	<b>16</b>	-	<b>16</b>
	-	-	-	17	-	17
<b>Other</b>	<b>75</b>	<b>33</b>	<b>108</b>	<b>28</b>	<b>19</b>	<b>155</b>
	56	40	96	46	15	157
<b>Total</b>	<b>1,402</b>	<b>1,628</b>	<b>3,030</b>	<b>162</b>	<b>323</b>	<b>3,515</b>
	1,368	1,539	2,907	149	177	3,233

(1) For the year ended December 31, 2021, Electricity and Natural Gas segments include \$156 million of unbilled revenue (2020 - \$132 million). At December 31, 2021, \$156 million of the unbilled revenue is included in trade accounts receivable and contract assets (2020 - \$132 million).

### Remaining performance obligations

The Company is party to performance obligations, which have a duration of more than one year, are not subject to the Right-to-Invoice practical expedient, and do not include variable consideration which is constrained (remaining performance obligations). At December 31, 2021, the most significant remaining performance obligations are as follows:

- (i) the Company's 35-year service agreement to operate Fort McMurray 500 kV Transmission project that amounts to \$0.8 billion. The Company expects that approximately 2 per cent of the amount will be recognized as revenue during the year ending December 31, 2022, subject to satisfaction of related performance obligations; and
- (ii) provision of storage and industrial water services over the life of a contract that in aggregate approximates \$0.3 billion. The Company expects that approximately 7 per cent of the amount will be recognized as revenue during the year ending December 31, 2022.

## 5. OTHER COSTS AND EXPENSES

In addition to rent, utilities, and goods and services such as professional fees, contractor costs, technology related expenses, advertising and other general and administrative expenses, in 2021, other costs and expenses included costs related to the transition of managed information technology services of \$55 million (2020 - \$71 million) (see Note 3).

## 6. INTEREST EXPENSE

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

	2021	2020
Long-term debt	390	394
Retirement benefits interest expense	11	14
Accretion expense on asset retirement obligation	10	1
Amortization of deferred financing charges	4	3
Short-term debt	2	1
Interest expense on lease liabilities (Note 16)	1	1
Other	1	-
	419	414
Less: interest capitalized (Notes 10, 11)	(6)	(13)
	413	401

Borrowing costs capitalized to property, plant and equipment and intangibles during 2021 were calculated by applying a weighted average interest rate of 4.31 per cent (2020 - 4.45 per cent) to expenditures on qualifying assets.

## 7. INCOME TAXES

### INCOME TAX EXPENSE

The income tax rate for 2021 is 23.0 per cent (2020 - 24.0 per cent).

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

	2021	2020
<b>Current income tax expense</b>		
Canada	20	42
Australia	(9)	-
Other	4	3
Adjustment in respect of prior years	5	(3)
	20	42
<b>Deferred income tax expense</b>		
Reversal of temporary differences	122	103
Change in income taxes resulting from decrease in provincial corporate tax rate	-	5
Adjustment in respect of prior years	(4)	2
	118	110
	138	152

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

	2021		2020	
Earnings before income taxes	538	%	586	%
Income taxes, at statutory rates	124	23.0	141	24.0
Equity earnings	(8)	(1.5)	(4)	(0.7)
Unrecognized deferred income tax assets	13	2.4	8	1.4
Tax cost on equity preferred share financing	5	0.9	5	0.9
Change in income taxes resulting from decrease in provincial corporate tax rate	-	-	5	0.8
Other	4	0.8	(3)	(0.5)
	138	25.6	152	25.9

### INCOME TAX ASSETS AND LIABILITIES

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

Balance Sheet Presentation		2021	2020
<b>Income tax assets</b>			
Current	Prepaid expenses and other current assets	32	32
Deferred	Deferred income tax assets	33	72
		65	104
<b>Income tax liabilities</b>			
Current	Provisions and other current liabilities	5	30
Deferred	Deferred income tax liabilities	1,588	1,416
		1,593	1,446

### DEFERRED INCOME TAXES

The changes in deferred income tax assets are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2019	16	(1)	(3)	39	10	5	66
(Charge) credit to earnings	(4)	(1)	2	8	-	1	6
Charge to other comprehensive income	-	-	(2)	-	-	-	(2)
Foreign exchange adjustment	-	-	-	-	-	1	1
Other	-	-	-	-	-	1	1
December 31, 2020	12	(2)	(3)	47	10	8	72
(Charge) credit to earnings	(17)	2	5	(14)	(1)	1	(24)
Charge to other comprehensive income	-	-	(12)	-	(1)	-	(13)
Other	-	-	-	-	-	(2)	(2)
December 31, 2021	(5)	-	(10)	33	8	7	33

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



The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2019	1,399	95	(11)	(70)	(125)	14	1,302
Charge (credit) to earnings	148	5	(2)	(1)	(3)	(36)	111
Credit to other comprehensive income	-	-	(7)	-	-	-	(7)
Change in income taxes resulting from decrease in provincial corporate tax rate	-	-	-	5	-	-	5
Foreign exchange adjustment	5	-	-	1	-	(2)	4
Other	-	-	-	-	-	1	1
December 31, 2020	1,552	100	(20)	(65)	(128)	(23)	1,416
Charge (credit) to earnings	<b>118</b>	<b>1</b>	<b>(1)</b>	<b>4</b>	<b>2</b>	<b>(30)</b>	<b>94</b>
Charge to other comprehensive income	-	-	<b>7</b>	-	<b>53</b>	-	<b>60</b>
Acquisition (Note 24)	<b>24</b>	-	-	-	-	-	<b>24</b>
Foreign exchange adjustment	<b>(6)</b>	-	-	-	-	<b>1</b>	<b>(5)</b>
Other	<b>(2)</b>	-	-	-	-	<b>1</b>	<b>(1)</b>
December 31, 2021	<b>1,686</b>	<b>101</b>	<b>(14)</b>	<b>(61)</b>	<b>(73)</b>	<b>(51)</b>	<b>1,588</b>

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

At December 31, 2021, the Company had \$477 million of non-capital tax losses and credits which expire between 2025 and 2041 and \$6 million of tax losses and credits which do not expire. The Company recognized deferred income tax assets of \$94 million for these losses and credits. The Company had \$93 million of aggregate temporary differences for which deferred income tax assets were not recognized (2020 - \$86 million).

## 8. 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 for the year ended December 31 are as follows:

	2021	2020
<b>Average shares</b>		
Weighted average shares outstanding	<b>269,855,016</b>	272,758,247
Effect of dilutive stock options	<b>29,268</b>	33,799
Effect of dilutive MTIP	<b>432,250</b>	480,465
Weighted average dilutive shares outstanding	<b>270,316,534</b>	273,272,511
<b>Earnings for earnings per share calculation</b>		
Earnings for the year	<b>400</b>	434
Dividends on equity preferred shares of the Company	<b>(65)</b>	(67)
Dividends to non-controlling interests	<b>(7)</b>	(7)
Earnings attributable to Class A and B shares	<b>328</b>	360
<b>Earnings and diluted earnings per Class A and Class B share</b>		
Earnings per Class A and Class B share	<b>\$1.21</b>	\$1.32
Diluted earnings per Class A and Class B share	<b>\$1.21</b>	\$1.32

## 9. INVENTORIES

Inventories at December 31 are comprised of:

	2021	2020
Natural gas and fuel in storage	15	20
Raw materials and consumables	6	8
	<b>21</b>	<b>28</b>

For the year ended December 31, 2021, inventories of \$10 million were used in operations and expensed (2020 - \$19 million).

## 10. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission & Distribution	Energy Infrastructure	Land and Buildings	Construction Work-in- Progress	Other	Total
<b>Cost</b>						
December 31, 2019	20,083	389	708	699	784	22,663
Additions	46	5	–	771	4	826
Transfers	855	8	7	(903)	33	–
Retirements and disposals	(75)	(1)	(17)	1	(24)	(116)
Changes to asset retirement costs	1	(2)	–	–	–	(1)
Foreign exchange rate adjustment	94	(6)	2	(2)	3	91
December 31, 2020	21,004	393	700	566	800	23,463
Additions	<b>65</b>	–	<b>44</b>	<b>985</b>	<b>3</b>	<b>1,097</b>
Transfers	<b>895</b>	<b>8</b>	<b>12</b>	<b>(942)</b>	<b>27</b>	–
Retirements and disposals	<b>(110)</b>	–	–	<b>(175)</b>	<b>(19)</b>	<b>(304)</b>
Acquisition (Note 24)	–	<b>104</b>	<b>2</b>	–	–	<b>106</b>
Foreign exchange rate adjustment	<b>(83)</b>	<b>(4)</b>	<b>(2)</b>	<b>(3)</b>	<b>(2)</b>	<b>(94)</b>
Changes to asset retirement costs	–	<b>(1)</b>	–	–	–	<b>(1)</b>
December 31, 2021	<b>21,771</b>	<b>500</b>	<b>756</b>	<b>431</b>	<b>809</b>	<b>24,267</b>
<b>Accumulated depreciation and impairment</b>						
December 31, 2019	4,720	145	166	78	342	5,451
Depreciation and impairment	455	9	15	–	67	546
Retirements and disposals	(75)	–	(17)	–	(24)	(116)
Foreign exchange rate adjustment	19	(1)	–	1	–	19
December 31, 2020	5,119	153	164	79	385	5,900
Depreciation and impairment	<b>486</b>	<b>32</b>	<b>19</b>	<b>69</b>	<b>50</b>	<b>656</b>
Retirements and disposals	<b>(110)</b>	–	–	<b>(148)</b>	<b>(19)</b>	<b>(277)</b>
Foreign exchange rate adjustment	<b>(17)</b>	<b>(1)</b>	–	–	<b>(2)</b>	<b>(20)</b>
December 31, 2021	<b>5,478</b>	<b>184</b>	<b>183</b>	–	<b>414</b>	<b>6,259</b>
<b>Net book value</b>						
December 31, 2020	15,885	240	536	487	415	17,563
December 31, 2021	<b>16,293</b>	<b>316</b>	<b>573</b>	<b>431</b>	<b>395</b>	<b>18,008</b>

In 2021, the Company reorganized the groups of property, plant and equipment to align presentation with the reportable segments. This resulted in reclassification of comparative figures to conform to the current presentation.

The additions to property, plant and equipment included \$2 million of interest capitalized during construction for the year ended December 31, 2021 (2020 - \$10 million).

## **PIONEER NATURAL GAS PIPELINE ACQUISITION**

In 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 Canada 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 transaction to acquire the Pioneer Pipeline closed in 2021. The transfer to NGTL received approval from the Canada Energy Regulator on December 22, 2021, and is expected to close in the first quarter of 2022. 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 for the segment of the pipeline that will be sold to NGTL, amounting to \$64 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. Pipeline integration costs of \$1 million are expected to be incurred in the first half of 2022, which would result in total costs of \$262 million, \$3 million less than the approved amount of \$265 million.

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.

## **PURCHASE OF LAND FROM RELATED PARTY**

### ***Energy Infrastructure Segment***

In December 2021, the Company purchased land from ATCO Land and Developments, an entity under common control of the parent company, for a total consideration of \$45 million (see Note 31).

## **IMPAIRMENTS**

### ***Impairment recorded in 2021 - Energy Infrastructure Segment***

In 2021, impairment of \$21 million (\$16 million after-tax) was recorded in respect of Energy Infrastructure's Veracruz hydro facility. 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. 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. The recoverable amount of Energy Infrastructure's Veracruz hydro facility was estimated to be \$22 million.

### ***Impairment recorded in 2020 - Corporate & Other Segment***

ATCO Oil & Gas Ltd., a subsidiary of Canadian Utilities Limited, holds a five per cent working interest in oil and gas assets in Northern Canada. With oil price volatility and the COVID-19 pandemic continuing to cause economic uncertainty (see Note 21), the Company determined that the total net book value of these assets was not recoverable due to reduced likelihood of future development of the assets, and, therefore, impaired these assets in full, recognizing an after-tax impairment of \$18 million in 2020. The impairment was included in depreciation, amortization and impairment expense. After recognizing the impairment, the recoverable amount of these assets was nil.

## 11. INTANGIBLES

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

	Computer Software	Land Rights	Work-in-Progress	Other	Total
<b>Cost</b>					
December 31, 2019	499	383	81	49	1,012
Additions	2	-	87	-	89
Transfers	56	24	(80)	-	-
Retirements	(177)	-	-	(2)	(179)
Foreign exchange rate adjustment	1	-	-	-	1
December 31, 2020	381	407	88	47	923
Additions	4	1	140	(2)	143
Transfers	45	24	(71)	2	-
Acquisition (Note 24)	-	5	-	-	5
Retirements	(33)	-	-	(2)	(35)
Foreign exchange rate adjustment	(2)	-	-	-	(2)
December 31, 2021	395	437	157	45	1,034
<b>Accumulated amortization and impairment</b>					
December 31, 2019	317	53	-	13	383
Amortization	50	7	-	3	60
Retirements	(177)	-	-	-	(177)
Foreign exchange rate adjustment	1	-	-	-	1
December 31, 2020	191	60	-	16	267
Amortization and impairment	45	5	-	25	75
Retirements	(31)	-	-	(2)	(33)
Foreign exchange rate adjustment	(1)	-	-	-	(1)
December 31, 2021	204	65	-	39	308
<b>Net book value</b>					
December 31, 2020	190	347	88	31	656
December 31, 2021	191	372	157	6	726

The additions to intangibles include interest capitalized during construction of \$4 million for the year ended December 31, 2021 (2020 - \$3 million).

### IMPAIRMENT

#### Energy Infrastructure Segment

In 2021, impairment of \$24 million (\$18 million after-tax) was recorded in respect of Energy Infrastructure's Veracruz hydro facility. 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. 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. The recoverable amount of Energy Infrastructure's Veracruz hydro facility was estimated to be \$22 million.

## 12. SHORT-TERM DEBT

At December 31, 2021, the Company had \$206 million of commercial paper outstanding at an effective interest rate of 0.32 per cent, maturing in January 2022, issued under a long-term committed credit line (Note 21) (2020 - nil). The outstanding balance was fully repaid in January 2022.

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

## 13. LONG-TERM DEBT

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

	Effective Interest Rate	2021	2020
CU Inc. debentures - unsecured <sup>(1)</sup>	4.410% (2020 - 4.487%)	8,440	8,140
CU Inc. other long-term obligation, due June 2023 - unsecured <sup>(2)</sup>	2.45% (2020 - 2.45%)	7	6
Canadian Utilities Limited debentures - unsecured, 3.122%, due November 2022	3.187%	200	200
ATCO Power Australia credit facility, payable in Australian dollars, at BBSY Rates, due June 2025, secured by a pledge of project assets and contracts, \$58 million AUD (2020 - \$58 million AUD) <sup>(3)</sup>	Floating <sup>(4)</sup>	47	56
ATCO Gas Australia revolving credit facility, payable in Australian dollars, at BBSY rates, due August 2024, \$350 million AUD (2020 - \$275 million AUD) <sup>(3)</sup>	Floating <sup>(4)</sup>	322	267
ATCO Gas Australia revolving credit facility, payable in Australian dollars, at BBSY rates, due August 2026, \$330 million AUD (2020 - \$405 million AUD) <sup>(3)</sup>	Floating <sup>(4)</sup>	304	394
Electricidad del Golfo credit facility, payable in Mexican pesos, at Mexican Interbank rates, due March 2023, \$570 million MXP (2020 - \$570 million MXP)	Floating <sup>(4)</sup>	35	36
Less: deferred financing charges		(47)	(46)
		9,308	9,053
Less: amounts due within one year		(331)	(166)
		8,977	8,887

BBSY - Bank Bill Swap Benchmark Rate

- (1) Interest rate is the average effective interest rate weighted by principal amounts outstanding.
- (2) During 2021, the expiry date of the CU Inc. other long-term obligation was extended from June 2022 to June 2023.
- (3) During 2021, the above interest rates had additional margin fees at a weighted average rate of 0.92 per cent (2020 - 1.07 per cent). The margin fees are subject to escalation.
- (4) Floating interest rates have been partially or completely hedged with interest rate swaps (see Note 20).

### DEBENTURE ISSUANCES AND REPAYMENTS

On September 3, 2021, CU Inc., a wholly owned subsidiary of the Company, issued \$460 million of 3.174 per cent debentures maturing on September 5, 2051. The Company also repaid repaid \$160 million of 4.801 per cent debentures on November 22, 2021.

On September 28, 2020, CU Inc. issued \$150 million of 2.609 per cent debentures maturing on September 28, 2050. CU Inc. also repaid \$100 million of 11.77 per cent debentures on November 30, 2020.

### OTHER LONG TERM DEBT ISSUANCES AND REPAYMENTS

#### ATCO Power Australia re-financing

In 2020, ATCO Power Australia, the Company's subsidiary, refinanced its 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.

## **PLEGGED ASSETS**

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

At December 31, 2021, the book value of assets pledged to maintain the Company's long-term credit facilities was \$91 million (2020 - \$103 million).

## **14. RETIREMENT BENEFITS**

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

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

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

## BENEFIT PLAN ASSETS, OBLIGATIONS AND FUNDED STATUS

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

	2021		2020	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Market value of plan assets</b>				
Beginning of year	3,015	–	2,819	–
Interest income	74	–	84	–
Employee contributions	–	–	1	–
Employer contributions	11	–	12	–
Benefit payments	(134)	–	(134)	–
Return on plan assets, excluding amounts included in interest income	26	–	233	–
End of year	2,992	–	3,015	–
<b>Accrued benefit obligations</b>				
Beginning of year	3,292	134	3,097	121
Current service cost	13	3	15	2
Interest cost	82	3	94	4
Employee contributions	–	–	1	–
Benefit payments from plan assets	(134)	–	(134)	–
Benefit payments by employer	(7)	(4)	(7)	(4)
Past service cost	–	–	4	–
Actuarial (gains) losses	(195)	(14)	222	11
End of year	3,051	122	3,292	134
<b>Funded status</b>				
Net retirement benefit obligations	59	122	277	134
<b>Included in net retirement benefit obligations are:</b>				
Registered funded defined benefit pension plan (asset liability) <sup>(1)</sup>	(87)	–	117	–
Non-registered, non-funded defined benefit pension plan obligation <sup>(2)</sup>	146	–	160	–
OPEB Plans	–	122	–	134
	59	122	277	134

(1) The registered funded defined benefit pension plan was in the asset position of \$87 million at December 31, 2021 due to the impacts of returns on plan assets, increase in the liability discount rate, experience adjustments, and the restriction of the net retirement benefit asset by the asset ceiling adjustment.

(2) In the Company's non-registered, non-funded defined benefit pension plans, accrued benefit obligations decreased to \$146 million at December 31, 2021 due to an increase in the liability discount rate and experience adjustments (2020 - increased to \$160 million due to a decrease in the liability discount rate and experience adjustments).

## BENEFIT PLAN COST

The components of benefit plan cost are as follows:

	2021		2020	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Current service cost	13	3	15	2
Interest cost	82	3	94	4
Interest income	(74)	–	(84)	–
Past service cost	–	–	4	–
Defined benefit plans cost	21	6	29	6
Defined contribution plans cost	27	–	26	–
Total cost	48	6	55	6
Less: capitalized	20	3	24	3
Net cost recognized	28	3	31	3

## RE-MEASUREMENT OF RETIREMENT BENEFITS

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

	2021		2020	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Gains on plan assets from:</b>				
Return on plan assets, excluding amounts included in net interest expense	26	–	233	–
<b>Gains (losses) on plan obligations from:</b>				
Changes in financial assumptions	195	14	(222)	(11)
<b>Gains (losses) recognized in other comprehensive income<sup>(1)</sup></b>	<b>221</b>	<b>14</b>	<b>11</b>	<b>(11)</b>

(1) Gains net of income taxes were \$181 million for the year ended December 31, 2021 (2020 - less than a million).



## PLAN ASSETS

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

Plan asset mix	2021				2020			
	Quoted	Un-quoted	Total	%	Quoted	Un-quoted	Total	%
Equity securities								
Public								
Canada	3	–	3		16	–	16	
United States	147	–	147		358	–	358	
International	81	–	81		273	–	273	
Private	–	2	2		–	3	3	
	<b>231</b>	<b>2</b>	<b>233</b>	<b>8</b>	647	3	650	22
Fixed income securities								
Government bonds	1,415	–	1,415		1,110	–	1,110	
Corporate bonds and debentures	821	–	821		748	–	748	
Securitizations	50	–	50		131	–	131	
Mortgages	–	149	149		–	106	106	
	<b>2,286</b>	<b>149</b>	<b>2,435</b>	<b>81</b>	1,989	106	2,095	69
Real estate								
Land and building <sup>(1)</sup>	–	13	13		–	22	22	
Real estate funds	–	212	212		–	198	198	
	–	<b>225</b>	<b>225</b>	<b>8</b>	–	220	220	7
Cash and other assets								
Cash	46	–	46		15	–	15	
Short-term notes and money market funds	44	–	44		20	–	20	
Accrued interest and dividends receivable	9	–	9		15	–	15	
	<b>99</b>	–	<b>99</b>	<b>3</b>	50	–	50	2
	<b>2,616</b>	<b>376</b>	<b>2,992</b>	<b>100</b>	2,686	329	3,015	100

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

## FUNDING

In 2021, an actuarial valuation for funding purposes as of December 31, 2020 was completed for the registered defined benefit pension plans. The estimated contribution for 2022 is \$10 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2023.

## WEIGHTED AVERAGE ASSUMPTIONS

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

	2021		2020	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
<b>Benefit plan cost</b>				
Discount rate for the year	2.58 %	2.58 %	3.10 %	3.10 %
Average compensation increase for the year	2.25 %	n/a	2.50 %	n/a
<b>Accrued benefit obligations</b>				
Discount rate at December 31	3.16 %	3.16 %	2.58 %	2.58 %
Long-term inflation rate	2.00 %	n/a	2.00 %	n/a
Health care cost trend rate:				
Drug costs <sup>(1)</sup>	n/a	5.05 %	n/a	5.11 %
Other medical costs	n/a	4.00 %	n/a	4.00 %
Dental costs	n/a	4.00 %	n/a	4.00 %

(1) The Company uses a graded drug cost trend rate, which assumes a 5.05 per cent rate per annum, grading down to 4.00 per cent in and after 2040.

The weighted average duration of the defined benefit obligation is 13.4 years.

## RISKS

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

### **Investment risk**

The Company makes investment decisions for its funded plans using an asset-liability matching framework. Within this framework, the Company's objective over time is to increase the proportion of plan assets in fixed income securities with maturities that match the expected benefit payments as they fall due. However, due to the long-term nature of the benefit obligations, the strength of the Company, and the belief that a diversified portfolio offers an appropriate risk-return profile, the Company continues to invest in equity securities, global fixed income and Canadian real estate in addition to Canadian fixed income. The Company has not changed the processes used to manage its risks from previous periods.

### **Interest rate risk**

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

### **Compensation risk**

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

### **Inflation risk**

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

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

### **Life expectancy**

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

## SENSITIVITIES

The 2021 sensitivities of significant assumptions used in measuring the Company's pension and OPEB plans are as follows:

Assumption	Per cent Change	Accrued Benefit Obligation		Net Benefit Plan Cost	
		Increase in Assumption	Decrease in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	1 %	(393)	488	8	(11)
Future compensation rate	1 %	6	(5)	–	–
Long-term inflation rate <sup>(1)</sup>	1 %	462	(380)	8	(7)
Health care cost trend rate	1 %	11	(9)	–	–
Life expectancy	10 %	(92)	104	(1)	2

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

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

## 15. BALANCES FROM CONTRACTS WITH CUSTOMERS

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

### ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

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

	2021	2020
Trade accounts receivable and contract assets	646	543
Accounts receivable from parent company	90	96
Other accounts receivable	23	10
	<b>759</b>	649
Contract assets included in other assets	3	–
	<b>762</b>	649

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

	2021	2020
Beginning of year	543	508
Revenue from satisfied performance obligations	3,358	3,049
Customer billings and other items not included in revenue	458	430
Credit loss allowance	(1)	(3)
Acquisition (Note 24)	1	–
Payments received	(3,708)	(3,445)
Foreign exchange rate adjustment and other	(2)	4
End of year	<b>649</b>	543

### CUSTOMER CONTRIBUTIONS

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

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

	2021	2020
Beginning of year	1,756	1,720
Receipt of customer contributions	169	82
Amortization	(55)	(56)
Transfers from other liabilities and foreign exchange rate adjustment	–	10
End of year	<b>1,870</b>	1,756

## 16. LEASES

### THE COMPANY AS LESSEE

#### *Right-of-use assets*

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

	2021	2020
<b>Cost</b>		
Beginning of year	76	68
Additions	4	9
Disposals	(1)	(1)
End of year	79	76
<b>Accumulated depreciation</b>		
Beginning of year	20	11
Depreciation	9	10
Disposals	(1)	(1)
End of year	28	20
<b>Net book value</b>	<b>51</b>	56

#### *Lease liabilities*

The Company has recognized lease liabilities in relation to the arrangements to lease the right-of-use assets. A reconciliation of movements in lease liabilities during the year ended December 31 is as follows:

	Note	2021	2020
Beginning of year		56	58
Additions		4	9
Disposals		-	(1)
Interest expense	6	1	1
Lease payments		(10)	(11)
End of year		51	56
Less: amounts due within one year		(7)	(9)
End of year		44	47

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

In one year or less	9
In more than one year, but not more than five years	35
In more than five years	30
	<b>74</b>

During the year ended December 31, 2021, \$3 million was expensed in relation to low-value leases, \$1 million was expensed in relation to short-term leases, and no expenses were incurred in relation to leases with variable payments (2020 - \$5 million was expensed in relation to low-value leases, less than \$1 million in relation to short-term leases, and nil in relation to leases with variable payments).

### THE COMPANY AS LESSOR

The Company is party to certain arrangements that convey the right to use electricity generation and non-regulated electricity transmission assets. These arrangements are classified as finance leases, with the Company as the lessor.

#### *Finance leases*

The total net investment in finance leases at December 31 is shown below. Finance lease income is recognized in revenues.

	2021	2020
<b>Net investment in finance leases</b>		
Finance lease - gross investment	275	313
Unearned finance income	(116)	(140)
	<b>159</b>	173
Current portion	10	9
Non-current portion	149	164
	<b>159</b>	173
<b>Gross receivables from finance leases</b>		
In one year or less	26	27
In more than one year, but not more than five years	102	107
In more than five years	147	179
	<b>275</b>	313
<b>Net investment in finance leases</b>		
In one year or less	10	9
In more than one year, but not more than five years	50	47
In more than five years	99	117
	<b>159</b>	173

During the year ended December 31, 2021, \$2 million of contingent rent was recognized as income from these finance leases (2020 - \$1 million).

## 17. EQUITY PREFERRED SHARES

### CANADIAN UTILITIES LIMITED EQUITY PREFERRED SHARES

#### *Authorized and issued*

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

Issued	December 31, 2021		December 31, 2020	
	Shares	Amount	Shares	Amount
<b>Cumulative Redeemable Second Preferred Shares</b>				
3.403% Series Y	13,000,000	325	13,000,000	325
4.90% Series AA	6,000,000	150	6,000,000	150
4.90% Series BB	6,000,000	150	6,000,000	150
4.50% Series CC	7,000,000	175	7,000,000	175
4.50% Series DD	9,000,000	225	9,000,000	225
5.25% Series EE	5,000,000	125	5,000,000	125
4.50% Series FF	10,000,000	250	10,000,000	250
4.75% Series HH	8,050,000	201	-	-
<b>Perpetual Cumulative Second Preferred Shares</b>				
4.60% Series V	-	-	4,400,000	110
Issuance costs		(30)		(27)
		<b>1,571</b>		1,483

On August 27, 2021, the Company redeemed all of the issued 4.60 per cent Series V Preferred Shares for \$110 million plus accrued dividends.

In December 2021, the Company issued 8,050,000 Series HH Preferred Shares yielding 4.75 per cent per annum for gross proceeds of \$201 million.

## Rights and privileges

Preferred shares	Redemption Amount <sup>(1)</sup>	Quarterly Dividend <sup>(2)</sup>	Reset Premium <sup>(3)</sup>	Date Redeemable/ Convertible	Convertible To
<b>Cumulative Redeemable Second Preferred Shares</b>					
Series Y	25.00	0.2126875	2.40 %	June 1, 2022 <sup>(4)</sup>	Series Z <sup>(5)</sup>
Series AA	25.00	0.30625	Does not reset	September 1, 2017 <sup>(6)</sup>	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 <sup>(6)</sup>	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 <sup>(6)</sup>	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 <sup>(6)</sup>	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 <sup>(6)</sup>	Not convertible
Series FF	25.00	0.28125	3.69 %	December 1, 2025 <sup>(4)</sup>	Series GG <sup>(5)</sup>
Series HH	25.00	0.296875	Does not reset	March 1, 2027 <sup>(6)</sup>	Not convertible

(1) Plus accrued and unpaid dividends.

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

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

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

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

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

## Dividends

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

(dollars per share)	2021	2020
<b>Cumulative Redeemable Second Preferred Shares</b>		
3.403% Series Y	<b>0.8508</b>	0.8508
4.90% Series AA	<b>1.2250</b>	1.2250
4.90% Series BB	<b>1.2250</b>	1.2250
4.50% Series CC	<b>1.1250</b>	1.1250
4.50% Series DD	<b>1.1250</b>	1.1250
5.25% Series EE	<b>1.3125</b>	1.3125
4.50% Series FF	<b>1.1250</b>	1.1250
<b>Perpetual Cumulative Second Preferred Shares</b>		
4.60% Series V <sup>1</sup>	<b>0.7456</b>	1.1500

(1) The 4.60% Series V Preferred Shares were redeemed on August 27, 2021.

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

On January 13, 2022, the Company declared first quarter eligible dividends of \$0.2126875 per Series Y Preferred Share, \$0.30625 per Series AA and Series BB Preferred Share, \$0.28125 per Series CC, Series DD, and Series FF Preferred Share, \$0.328125 per Series EE Preferred Share and \$0.26678 per Series HH Preferred Share.

## 18. CLASS A AND CLASS B SHARES

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

### AUTHORIZED AND ISSUED

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2019	199,695,081	1,110	73,550,844	139	273,245,925	1,249
Stock options exercised	34,800	1	-	-	34,800	1
Purchased and cancelled	(420,000)	(2)	-	-	(420,000)	(2)
Converted: Class B to Class A	100,955	-	(100,955)	-	-	-
December 31, 2020	199,410,836	1,109	73,449,889	139	272,860,725	1,248
Stock options exercised	<b>62,400</b>	<b>2</b>	-	-	<b>62,400</b>	<b>2</b>
Purchased and canceled	<b>(3,576,004)</b>	<b>(20)</b>	-	-	<b>(3,576,004)</b>	<b>(20)</b>
Converted: Class B to Class A	<b>1,061,615</b>	<b>2</b>	<b>(1,061,615)</b>	<b>(2)</b>	-	-
December 31, 2021	<b>196,958,847</b>	<b>1,093</b>	<b>72,388,274</b>	<b>137</b>	<b>269,347,121</b>	<b>1,230</b>

Class A and Class B shares have no par value.

### MID-TERM INCENTIVE PLAN

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

	2021		2020	
	Shares	Amount	Shares	Amount
Shares issued and outstanding	<b>269,347,121</b>	<b>1,230</b>	272,860,725	1,248
Shares held in trust for the mid-term incentive plan	<b>(435,902)</b>	<b>(14)</b>	(445,041)	(16)
Shares outstanding, net of shares held in trust	<b>268,911,219</b>	<b>1,216</b>	272,415,684	1,232

### DIVIDENDS

The Company declared and paid cash dividends of \$1.7592 per Class A and Class B share during 2021 (2020 - \$1.7416). The Company's policy is to pay dividends quarterly on its Class A and Class B shares. The payment and amount of any quarterly dividend is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 13, 2022, the Company declared a first quarter dividend of \$0.4442 per Class A and Class B share.

### SHARE OWNER RIGHTS

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 offer for 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 acquired 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.

#### **DIVIDEND REINVESTMENT PROGRAM**

On January 13, 2022, the Company reinstated its dividend reinvestment program (DRIP) for eligible Class A non-voting and Class B common share owners who are enrolled in the program. The DRIP was previously suspended effective January 10, 2019.

The DRIP allows eligible Class A non-voting and Class B common share owners of the Company to reinvest all or a specified portion of their dividends in additional Class A non-voting shares.

The Class A non-voting shares are issued from treasury at a two per cent discount to the volume weighted average price of the Class A non-voting shares traded on the Toronto Stock Exchange during the last five qualifying trading days preceding the dividend payment date.

#### **NORMAL COURSE ISSUER BID**

On July 29, 2021, the Company began a normal course issuer bid (NCIB), to purchase up to 3,930,623 outstanding Class A Shares. The bid expires on July 28, 2022. The prior NCIB to purchase up to 3,996,004 outstanding Class A Shares began on July 22, 2020 and expired on July 21, 2021.

During the year ended December 31, 2021, 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 (2020 - 420,000 Class A shares were purchased for \$13 million, resulting in a decrease to share capital of \$2 million and a decrease to retained earnings of \$11 million).

## **19. CASH FLOW INFORMATION**

#### **ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES**

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

	<b>2021</b>	<b>2020</b>
Depreciation, amortization and impairment	<b>651</b>	610
Distributions received from investment in joint ventures	<b>45</b>	19
Earnings from investment in joint ventures	<b>(58)</b>	(31)
Income tax expense	<b>138</b>	152
Unrealized losses on derivative financial instruments	<b>26</b>	10
Contributions by customers for extensions to plant	<b>169</b>	82
Amortization of customer contributions	<b>(55)</b>	(56)
Net finance costs	<b>402</b>	386
Income taxes paid	<b>(47)</b>	(26)
Provision on early termination of the master service agreement for managed IT services ( <i>Note 3</i> )	<b>6</b>	71
Other	<b>(7)</b>	(23)
	<b>1,270</b>	1,194



## CHANGES IN NON-CASH WORKING CAPITAL

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

	2021	2020
<b>Operating activities</b>		
Accounts receivable and contract assets	(105)	(13)
Inventories	7	2
Prepaid expenses and other current assets	(7)	-
Accounts payable and accrued liabilities	153	14
	48	3
<b>Investing activities</b>		
Accounts receivable and contract assets	(12)	(4)
Accounts payable and accrued liabilities	20	-
	8	(4)

## DEBT RECONCILIATION

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

	Short-term debt	Long-term debt
<b>Liabilities from financing activities</b>		
December 31, 2019	-	8,966
Net issue of debt	-	46
Foreign currency translation	-	41
Debt issue costs	-	(3)
Amortization of deferred financing charges	-	3
December 31, 2020	-	9,053
Net issue of debt	206	294
Foreign currency translation	-	(38)
Debt issue costs	-	(5)
Amortization of deferred financing charges	-	4
December 31, 2021	206	9,308

See Note 16 for the reconciliation of the changes in lease liability for the years ended December 31, 2021 and 2020.

## CASH POSITION

Cash position at December 31 is comprised of:

	2021	2020
Cash	744	771
Short-term investments	2	5
Restricted cash <sup>(1)</sup>	7	5
Cash and cash equivalents	753	781
Bank indebtedness	(3)	(3)
	750	778

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

## 20. 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
<b>Measured at Amortized Cost</b>	
Cash and cash equivalents, accounts receivable and contract assets, bank indebtedness, accounts payable and accrued liabilities and short-term debt	Assumed to approximate carrying value due to their short-term nature.
Finance lease receivables	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).
<b>Measured at Fair Value</b>	
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 at December 31 are as follows:

Recurring Measurements	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Finance lease receivables	159	215	173	251
<b>Financial Liabilities</b>				
Long-term debt	9,308	10,830	9,053	11,396

## FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At December 31, 2021 and 2020, 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;
- foreign currency forward contracts for the purpose of limiting exposure to exchange rate fluctuations;
- 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	Total Fair Value of Derivatives
	Interest Rate Swaps	Commodities	Commodities	
<b>Recurring Measurements</b>				
<b>December 31, 2021</b>				
<b>Financial Assets</b>				
Prepaid expenses and other current assets <sup>(1)</sup>	–	52	2	54
Other assets <sup>(1)</sup>	8	35	6	49
<b>Financial Liabilities</b>				
Provisions and other current liabilities <sup>(1)</sup>	1	12	20	33
Other liabilities <sup>(1)</sup>	–	8	6	14
<b>December 31, 2020</b>				
<b>Financial Assets</b>				
Prepaid expenses and other current assets <sup>(1)</sup>	–	25	5	30
Other assets <sup>(1)</sup>	–	12	4	16
<b>Financial Liabilities</b>				
Provisions and other current liabilities <sup>(1)</sup>	1	6	8	15
Other liabilities <sup>(1)</sup>	20	4	3	27

(1) At December 31, 2021, financial liabilities and financial assets include \$26 million and \$8 million, respectively, of Level 3 derivative financial instruments (2020 - financial liabilities and financial assets include \$9 million and \$8 million, respectively, of Level 3 derivative financial instruments).

During the year ended December 31, 2021, gains before income taxes of \$106 million were recognized in other comprehensive income (OCI) (2020 - losses of \$17 million), and \$30 million were reclassified to the statement of earnings (2020 - \$3 million).

Hedge ineffectiveness of \$14 million was recognized in the consolidated statements of earnings during 2021 (2020 - \$3 million). Over the next 12 months, the Company estimates that gains before income taxes of \$34 million will be reclassified from accumulated other comprehensive income (AOCI) to earnings.

## Notional and maturity summary

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

Notional value and maturity	Subject to Hedge Accounting				Not Subject to Hedge Accounting		
	Interest Rate Swaps	Natural Gas <sup>(1)</sup>	Power <sup>(2)</sup>	Foreign Currency Forward Contracts	Natural Gas <sup>(1)</sup>	Power <sup>(2)</sup>	Foreign Currency Forward Contracts
<b>December 31, 2021</b>							
Purchases <sup>(3)</sup>	–	23,062,900	3,240,005	–	–	–	–
Sales <sup>(3)</sup>	–	2,313,227	526,314	–	11,015,969	1,232,616	–
Currency							
Australian dollars	732	–	–	–	–	–	–
Mexican pesos	570	–	–	–	–	–	79
U.S. dollars	–	–	–	2	–	–	–
Maturity	2023-2025	2022-2026	2022-2026	2022	2022-2024	2022-2024	2022
<b>December 31, 2020</b>							
Purchases <sup>(3)</sup>	–	10,593,800	2,203,836	–	–	–	–
Sales <sup>(3)</sup>	–	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.

## OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

	Effects of Offsetting on the Balance Sheet		
	Gross Amount	Gross Amount Offset	Net Amount Recognized
<b>2021</b>			
<b>Financial Assets</b>			
Derivative assets <sup>(1)(2)</sup>	95	–	95
Accounts receivable and contract assets	65	(39)	26
<b>Financial Liabilities</b>			
Derivative liabilities <sup>(1)(3)</sup>	46	–	46
<b>2020</b>			
<b>Financial Assets</b>			
Derivative assets <sup>(1)(2)</sup>	45	–	45
Accounts receivable and contract assets	61	(39)	22
<b>Financial Liabilities</b>			
Derivative liabilities <sup>(1)(3)</sup>	20	–	20

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

(2) At December 31, 2021, \$54 million is included in prepaid expenses and other assets, and \$41 million is included in other assets in the consolidated balance sheets (2020 - \$29 million and \$16 million).

(3) At December 31, 2021, \$32 million is included in provisions and other current liabilities, and \$14 million is included in other liabilities in the consolidated balance sheets (2020 - \$13 million and \$7 million).

## 21. RISK MANAGEMENT

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

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

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

### MARKET RISK

#### *Interest rate risk*

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

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

The Company's risk management policy is to hedge all material interest rate risk exposures related to long-term financings when the risk is incurred, unless commercial arrangements or mechanisms are in place to offset such interest rate risk. The Company has fixed interest rates, either directly or through interest rate swap agreements, on 100 per cent (2020 - 100 per cent) of total long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited.

A 25 basis point increase or decrease in interest rates would increase or decrease earnings by less than \$1 million. This analysis has been determined based on the exposure to interest rates for financial instruments outstanding at December 31, 2021.

#### *Foreign exchange risk*

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

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

	<b>OCI</b>
U.S dollar	5
Australian dollar	58

The sensitivity analysis is based on management's assessment that an average 10 per cent increase or decrease in these currencies relative to the Canadian dollar is a reasonable potential change over the next year. This analysis has been determined based on the exposure to foreign exchange for financial instruments outstanding at December 31, 2021.

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

### ***Energy commodity price risk***

Energy commodity price risk is the risk that the fair value or future cash flows of natural gas and electricity sales and purchases will fluctuate due to changes in market prices. Fluctuations in market prices result from changes in supply and customer demand, fuel costs, market conditions, weather, regulatory policies, and other factors. The Company's retail energy and natural gas storage businesses are exposed to commodity price movements, particularly to the market price of natural gas and electricity.

Anticipated price risks are calculated based on the Company's customer demand requirements and supply requirements to natural gas and electricity. These are consistently observed and analyzed to ensure that operational and commercial strategic policies to mitigate pricing risk are met.

The Company manages its price risk as part of its strategy by entering into hedging contracts, including short-term and long-term fixed price sale and purchase contracts. Management actively monitors its derivative transactions in accordance with its risk management policy. This policy sets out pre-defined risks and financial parameters so that price fluctuations do not materially affect the margins the Company ultimately receives.

The Company is also exposed to seasonal natural gas price spreads in its natural gas storage operations. Management mitigates this risk by entering into short-term and long-term firm capacity arrangements, where appropriate.

The Company's natural gas and electricity contracts associated with financial derivatives are significantly influenced by the variability of forward spot prices.

A 10 per cent increase or decrease in the forward price of natural gas or electricity would increase or decrease earnings by \$11 million, and would increase or decrease OCI by \$21 million. This analysis assumes that changes in the forward price of natural gas and electricity affects the mark-to-market adjustment of the purchase and sale contracts.

### **CREDIT RISK**

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

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

Accounts receivable and contract assets and finance lease receivable credit risk is reduced by transacting with credit-worthy customers in accordance with the established credit approval policies, diversified customer base and through collateral arrangements such as letters of credit, corporate guarantees and cash deposits. The utilities are also able to recover an estimate for their credit loss allowances through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to its terms and conditions. This risk is mitigated by dealing with large, credit-worthy counterparties and continuous monitoring of the counterparty risk exposure. The Company has in certain instances entered into master netting agreements with its derivative counterparties, which provides a right to offset for certain exposures between the parties.

The Company does not have a concentration of credit risk with any counterparty, except for finance lease receivables, which by its nature is with a single counterparty.

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

	High (AA to AAA)	Medium (BBB to A)	(BB and below)
December 31, 2021	0%-0.02%	0.05%-0.15%	0.48%-3.13%
December 31, 2020	0%-0.02%	0.05%-0.16%	0.51%-3.20%

At December 31, 2021, the Company had approximately \$24 million of accounts receivable and contract assets classified as Low (BB and below) (2020 - approximately \$50 million).

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

The credit loss recognized during 2021 was \$1 million (2020 - \$3 million). As at December 31, 2021, the expected credit loss allowance balance was \$5 million (2020 - \$6 million).

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

	2021	2020
Up to 30 days	611	521
31 to 60 days	7	9
61 to 90 days	4	2
Over 90 days	24	11
	646	543

At December 31, 2021, the Company held \$285 million in letters of credit for certain counterparty receivables (2020 - \$237 million). The Company did not take possession of any collateral it holds as security in 2021 or 2020. The Company has also entered into guarantee arrangements with the parent company of Direct Energy Partnership (NRG Energy) relating to the retail energy supply functions performed by Direct Energy (see Note 29).

## LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital structure. The Company considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans are also used under available credit lines to provide flexibility in the timing and amounts of long-term financing.

### Lines of credit

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

	2021			2020		
	Total	Used	Available	Total	Used	Available
Long-term committed	2,467	832	1,635	2,505	661	1,844
Uncommitted	553	185	368	553	152	401
	3,020	1,017	2,003	3,058	813	2,245

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

Lines of credit utilized at December 31 are comprised of:

	2021	2020
Short-term debt	206	-
Long-term debt	626	661
Letters of credit	185	152
	<b>1,017</b>	813

### Commercial paper

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

### Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2021, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2022	2023	2024	2025	2026	2027 and thereafter
Accounts payable and accrued liabilities	739	-	-	-	-	-
Short-term debt	206	-	-	-	-	-
Long-term debt:						
Principal	331	148	448	30	429	7,969
Interest expense <sup>(1)</sup>	357	354	347	342	345	6,422
Derivatives <sup>(2)</sup>	32	9	4	1	-	-
	<b>1,665</b>	<b>511</b>	<b>799</b>	<b>373</b>	<b>774</b>	<b>14,391</b>

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2021. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2021.

The table below analyzes the remaining contractual maturities at December 31, 2020, of the Company's financial liabilities based on the contractual undiscounted cash flows, as reported in the consolidated financial statements for the year ended December 31, 2020.

	2021	2022	2023	2024	2025	2026 and thereafter
Accounts payable and accrued liabilities	549	-	-	-	-	-
Long-term debt:						
Principal	166	337	804	126	32	7,634
Interest expense <sup>(1)</sup>	377	368	348	327	327	6,396
Derivatives <sup>(2)</sup>	13	5	2	-	-	-
	<b>1,105</b>	<b>710</b>	<b>1,154</b>	<b>453</b>	<b>359</b>	<b>14,030</b>

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2020. Interest payments on debt that has been hedged have been estimated using hedged rates.

(2) Payments on outstanding derivatives have been estimated using exchange rates and commodity prices in effect at December 31, 2020.

### PANDEMIC RISK

An outbreak of infectious disease, a pandemic or a similar public health threat, such as the COVID-19 pandemic, could adversely impact the Company. This includes causing operating, supply chain and project development delays and disruptions, labor shortages and shutdowns as a result of government regulation and prevention measures, increased strain on employees and compromised levels of customer service, any of which could have a negative impact on the Company's operations.

Any deterioration in general economic and market conditions resulting from a public health threat could negatively affect demand for electricity and natural gas, revenue, operating costs, timing and extent of capital expenditures,



results of financing efforts, or credit risk and counterparty risk; any of which could have a negative impact on the Company's business.

While the Company's investments are largely focused on regulated utilities and long-term contracted businesses with strong counterparties creating a resilient investment portfolio, the extent of the COVID-19 pandemic and its future impact on the Company remains uncertain. In response to the evolving situation, the Company's Pandemic Plan was activated in February 2020. The plan included travel restrictions, limited access to facilities, a direction to work from home whenever possible, physical distancing measures and other protocols (including the use of personal protective equipment while at a work premise). Since then, the Company has been following recommendations by local and national public health authorities across the globe to adjust operational requirements as needed to ensure a coordinated approach across the Company. As a result of these efforts and the Company's experience in crisis response, the Company's operations, financial position and performance have not been significantly impacted for the year ended December 31, 2021.

## **CLIMATE CHANGE RISK**

The Company manages climate risks related to assets, including preparing for, and responding to, extreme weather events through activities such as proactive route and site selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes and continues to evaluate ways to create greater system reliability and resiliency. When planning for capital expenditures or acquiring assets, the Company considers site specific climate and weather factors, such as flood plain mapping and extreme weather history.

The Company also continues to explore and implement opportunities in clean fuels, renewable energy, and energy efficiency. This includes looking at ways to modernize the Company's energy infrastructure to accommodate new and innovative sources of energy as well as ways to further use energy more efficiently. This process is associated with risks and uncertainties, and is highly dependent on changes in legislation, market price volatility, local and global demand on energy, as well as the timing of when the local and global markets transition to a more energy efficient and cleaner fuels-based economy. The extent and significance of the future impact of such risks and uncertainties remain unknown.

## **22. CAPITAL DISCLOSURES**

The Company's objectives when managing capital are to:

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

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

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

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

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

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

	2021	2020
Bank indebtedness	3	3
Short-term debt	206	–
Long-term debt	9,308	9,053
Total debt	9,517	9,056
Class A and Class B shares	1,216	1,232
Contributed surplus	8	8
Retained earnings	3,862	3,928
Accumulated other comprehensive loss	(22)	(30)
Equity preferred shares	1,571	1,483
Non-controlling interests	187	187
Total equity	6,822	6,808
Total capitalization	16,339	15,864
Debt capitalization	58 %	57 %

For the year ended December 31, 2021, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities.

## 23. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

### SIGNIFICANT ACCOUNTING JUDGMENTS

#### *Revenue related items*

The Company makes judgments with respect to: determining whether the promised goods and services are considered distinct performance obligations by considering the relationship of such promised goods and services; allocating the transaction price for each distinct performance obligation identified through stand-alone selling price; evaluating when a customer obtains control of the goods or services promised; and evaluating whether the Company acts as principal or agent on certain flow-through charges to customers.

#### *Impairment of financial assets*

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

#### *Joint arrangements*

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

#### *Impairment of long-lived assets*

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in the Company's overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. Measurement uncertainty is increased where the Company is not the operator of a facility. The Company continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made in order to conclude whether a possible impairment exists.

### ***Property, plant and equipment and intangibles***

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

### ***Leases***

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

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

### ***Income taxes***

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable.

When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date, using a probability weighting of possible outcomes.

## **SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

### ***Revenue recognition***

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

### ***Impairment of financial assets***

The impairment loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. For details regarding significant assumptions and key inputs used to calculate impairment loss allowance, see Note 21.

### ***Useful lives of property, plant and equipment and intangibles***

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

### ***Impairment of long-lived assets***

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

### **Leases**

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

### **Onerous contracts**

In assessing the unavoidable costs of meeting obligations under an onerous contract at the reporting date, the Company identifies and quantifies any compensation or penalties, other costs arising from the need to terminate a contract or inability to fulfil it. This process involves judgment about the future events, interpretation of legal terms of a contract, as well as estimates on the timing and amount of future cash flows. The change in used estimates and underlying assumptions can significantly impact the amount of recognized provision in relation to onerous contracts.

### **Retirement benefits**

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Significant assumptions used to determine the retirement benefit cost and obligation are shown in Note 14.

### **Asset retirement obligations**

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

### **Income taxes**

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using a probability weighting of possible outcomes.

### **Use of judgments and estimates around the COVID-19 pandemic**

For the year ended December 31, 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 to the consolidated financial statements.

## 24. BUSINESS COMBINATIONS

### **Acquisition of the natural gas storage business in Canada**

On December 2, 2021, ATCO Energy Solutions Ltd., a subsidiary of the Company, acquired a 100 per cent ownership interest in Alberta Hub, an underground natural gas storage business in Alberta, Canada. The acquisition is reported in the Energy Infrastructure segment.

The aggregate consideration paid for Alberta Hub was \$135 million, which is comprised of \$84 million cash paid, net of cash acquired of \$51 million. There is no contingent consideration with this acquisition.

The fair values of the identifiable assets acquired and liabilities assumed were as follows:

Accounts receivable and contract assets	1
Property, plant & equipment	106
Intangible assets	5
Deferred income tax liabilities	(24)
Other liabilities	(4)
<b>Total identifiable net assets acquired</b>	<b>84</b>

The fair value of the acquired accounts receivable approximated the carrying value due to their short-term nature. None of the accounts receivable acquired were impaired.

From the date of acquisition, revenues of \$1 million and earnings attributable to equity owners of the Company of less than \$1 million were included in the consolidated statements of earnings for the year ended December 31, 2021, as a result of the acquisition. Transaction costs of \$1 million for incremental legal and advisory services fees were expensed during the year ended December 31, 2021 and included in other costs and expenses in the consolidated statements of earnings.

The Company's pro-forma consolidated revenues and earnings attributable to equity owners of the Company for the year ended December 31, 2021, would have been \$3,540 million and \$404 million, respectively, if the acquisition had occurred on January 1, 2021. These pro-forma adjustments reflect the Company's historic natural gas storage margin and adjustments for depreciation and amortization assuming the fair values attributed in the purchase price allocation occurred on January 1, 2021. These pro-forma results may not necessarily be indicative of actual results had the acquisition occurred on January 1, 2021.

## 25. SUBSIDIARIES

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

<b>Principal Operating Subsidiaries</b>	<b>Principal Place of Business</b>	<b>Principal Activity</b>
ATCO Energy Solutions	Canada	Develops, owns and operates non-regulated energy and water-related infrastructure
Electricidad del Golfo	Mexico	Electricity generation and related infrastructure services
ATCO Gas Australia	Australia	Natural gas distribution
ATCO Power Australia	Australia	Electricity generation
ATCO Energy	Canada	Electricity and natural gas retailer and a provider of whole-home solutions
ATCO Power (2010)	Canada	Electricity generation and related infrastructure services
CU Inc.	Canada	Holding company
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas <sup>(1)</sup>	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines <sup>(1)</sup>	Canada	Natural gas transmission and related infrastructure development

(1) ATCO Gas and ATCO Pipelines are divisions of ATCO Gas and Pipelines Ltd.

## 26. JOINT ARRANGEMENTS

### JOINT VENTURES

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

Significant Joint Ventures	Segment	Operating Jurisdiction	Ownership %	Principal Activity
LUMA Energy LLC	Utilities, Electricity	Puerto Rico	50	Operations and management services
Osborne Cogeneration Plant	Energy Infrastructure	Australia	50	Electricity generation
Strathcona Storage Limited Partnership	Energy Infrastructure	Canada	60	Hydrocarbon storage

#### **LUMA Energy LLC**

On June 22, 2020, LUMA Energy LLC (LUMA), a Commonwealth of Puerto Rico based joint venture between the Company and Quanta Services, Inc., where each party holds a 50 per cent ownership interest, was selected by the Puerto Rico Public-Private Partnerships Authority to modernize and operate Puerto Rico's electric transmission and distribution system over a term of 15 years after a one year transition period which commenced in June 2020.

LUMA contractual arrangements do not assume ownership of any electric transmission and distribution assets. The functional currency of LUMA is US dollars.

The Company has accounted for its 50 per cent ownership interest as a joint venture, whereby the initial investment shall be adjusted for the Company's share of LUMA's earnings, other comprehensive income, dividends received from LUMA, and foreign exchange. When making the assessment on whether LUMA represents a joint venture, the Company considered the structure, legal form and contractual terms of the arrangement with Quanta Services, Inc., as well as other facts and circumstances.

LUMA is reported in the Utilities, Electricity segment.

#### **Joint Ventures financial information**

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

	2021	2020
Earnings and comprehensive income for the year	58	31
Dividends received	45	19
Aggregate carrying amount of interests in joint ventures	204	165

Contributions in the Company's joint ventures during the year ended December 31 were as follows:

	2021	2020
LUMA Energy LLC	8	-
Strathcona Storage Limited Partnership	19	9
	27	9

#### **Commitments**

The joint ventures have contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on the contractual undiscounted cash flows, was \$10 million at December 31, 2021 (2020 - \$15 million).

#### **Dividends and Distributions**

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

## 27. NON-CONTROLLING INTERESTS

Non-controlling interests at December 31 are comprised of CU Inc. Equity Preferred Shares.

### Authorized and issued

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

Issued	2021		2020	
	Shares	Amount	Shares	Amount
<b>Cumulative Redeemable Preferred Shares</b>				
4.60% Series 1	4,600,000	115	4,600,000	115
2.292% Series 4 <sup>(1)</sup>	3,000,000	75	3,000,000	75
Issuance costs		(3)		(3)
		<b>187</b>		<b>187</b>

(1) Effective June 1, 2021, the annual dividend rate for the Series 4 Preferred Shares was reset at 2.292 per cent for the five-year period from June 1, 2021 to May 31, 2026. Prior to the reset on June 1, 2021, the annual dividend rate was 2.24 per cent.

### Rights and privileges

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

(1) Plus accrued and unpaid dividends.

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

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

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

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

## 28. SHARE-BASED COMPENSATION PLANS

### PLAN FEATURES

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

Form of compensation	Eligibility	Vesting Period	Term	Settlement
Stock options <sup>(1)(2)</sup>	Officers and key employees	20% per year over 5 years	10 years	Class A non-voting shares <sup>(4)</sup>
		25% per year over 4 years	8 years	Class A non-voting shares <sup>(4)</sup>
Share appreciation rights <sup>(1)</sup>	Directors, officers and key employees	20% per year over 5 years	10 years	Cash
Mid-term incentive plan	Officers and key employees	2-3 years <sup>(3)</sup>	2-3 years	Class A non-voting shares <sup>(5)</sup>

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

(2) Stock Options granted from 2020 onwards vest over 4 years with a term of 8 years. Stock Options that were granted prior to 2020 vest over 5 years with a term of 10 years.

(3) Based on achieving certain performance criteria.

(4) Issued from Treasury.

(5) Purchased on the secondary market.

## STOCK OPTION PLAN

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

	2021		2020	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options authorized for grant	12,800,000		12,800,000	
Options available for issuance	2,905,900		3,240,200	
Outstanding options, beginning of year	1,252,850	\$35.26	809,450	\$36.91
Granted	525,000	35.75	488,000	32.09
Exercised	(62,400)	31.97	(34,800)	28.56
Forfeited	(190,700)	34.72	(9,800)	37.95
Outstanding options, end of year	1,524,750	\$35.63	1,252,850	\$35.26
Options exercisable, end of year	641,300	\$36.91	528,100	\$37.32

  

Options	Outstanding		Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$29.97	4,200	4.0	\$29.97	4,200	\$29.97
\$32.09 - \$34.80	532,600	6.7	32.54	184,200	32.93
\$35.34 - \$39.76	915,850	7.0	37.04	380,900	38.17
\$40.78 - \$41.54	72,100	3.3	40.81	72,000	40.81
\$29.97 - \$41.54	1,524,750	6.7	\$35.63	641,300	\$36.91

Compensation expense related to stock options was \$1 million in 2021 (less than \$1 million in 2020), with a corresponding increase to contributed surplus.

## SHARE APPRECIATION RIGHTS

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

	2021		2020	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	758,850	\$37.26	805,950	\$36.90
Exercised	(65,650)	32.13	(37,300)	29.28
Forfeited	(29,700)	38.05	(9,800)	37.95
Outstanding SARs, end of year	663,500	\$37.73	758,850	\$37.26
SARs exercisable, end of year	535,550	\$37.84	522,100	\$37.30

  

SARs	Outstanding		Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$29.97	4,200	4.0	\$29.97	4,200	\$29.97
\$33.07 - \$34.80	120,850	5.5	34.02	79,950	33.97
\$35.64 - \$39.76	466,350	4.5	38.29	379,400	38.17
\$40.78 - \$41.54	72,100	3.3	40.81	72,000	40.81
\$29.97 - \$41.54	663,500	4.6	\$37.73	535,550	\$37.84

In 2021, compensation expense related to SARs was an expense of \$1 million (2020 - expense of \$1 million). The total carrying value of liabilities arising from SARs at December 31, 2021 was \$2 million (2020 - \$1 million). The total intrinsic value of all vested SARs at December 31, 2021 and December 31, 2020 was less than \$1 million.



## STOCK OPTION AND SARs WEIGHTED AVERAGE ASSUMPTIONS

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

	2021		2020	
	Options	SARs <sup>(2)</sup>	Options	SARs <sup>(2)</sup>
Class A share price	\$35.75	n/a	\$32.09	n/a
Risk-free interest rate	1.07 %	n/a	0.5 %	n/a
Share price volatility <sup>(1)</sup>	24.09 %	n/a	22.25 %	n/a
Estimated annual Class A share dividend	4.89 %	n/a	5.49 %	n/a
Expected holding period prior to exercise	6.8 years	n/a	6.8 years	n/a

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

(2) No weighted average assumptions are shown for SARs because there were no grants in 2021 or 2020.

## MID-TERM INCENTIVE PLAN

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

	2021		2020	
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	445,041	\$35.02	579,524	\$36.17
Vested	(29,850)	34.38	(136,933)	38.97
Forfeited <sup>(1)</sup>	(10,250)	34.89	(341,217)	35.25
Change in unallocated shares <sup>(2)</sup>	30,961	–	343,667	–
Outstanding MTIPs, end of year	435,902	\$35.97	445,041	\$35.02

(1) Forfeitures occur when certain performance criteria are not met.

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

MTIPs	Outstanding		
Range of Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Grant Date Fair Value
\$35.97	21,850	0.6	\$35.97
Unallocated shares	414,052	–	–
\$35.97	435,902	0.6	\$35.97

Compensation expense related to MTIP grants was less than \$1 million for 2021 with a corresponding increase to contributed surplus (2020 - credit of \$2 million with a corresponding decrease to contributed surplus).

The Company, through a trustee, did not purchase any shares during 2021 to be distributed to employees on vesting of the awards (2020 - nil).

## 29. CONTINGENCIES

### AUC enforcement proceeding

On November 29, 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. This proceeding is to determine whether ATCO Electric Transmission failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the sole source contract for the Jasper interconnection project and the actions leading up to and including the filing of the 2018-2020 Deferral Account Application. This proceeding will also determine any future remedies that may be required.

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of \$16 million (\$14 million after-tax) related to the proceeding, however, the ultimate outcome of the enforcement proceeding is uncertain and could differ materially from the amount recognized.

### Measurement inaccuracies

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

### Direct Energy Partnership retail obligation

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

NRG Energy Inc. (NRG), Direct Energy's parent company, provided a \$300 million guarantee, supported by a \$300 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric Distribution under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

### Other

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

## 30. COMMITMENTS

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

	2022	2023	2024	2025	2026	2027 and thereafter
Purchase obligations:						
Operating and maintenance agreements	338	324	283	51	39	96
Capital expenditures	328	-	-	-	-	-
Other	6	-	-	-	-	-
	672	324	283	51	39	96

## 31. RELATED PARTY TRANSACTIONS

### TRANSACTIONS WITH PARENT AND AFFILIATE COMPANIES

Transaction	Recorded As	2021	2020
Executive fleet management, rental and other services	Revenues	13	11
Administrative expenses, rent expense and licensing fees	Other expenses	20	18

At December 31, 2021, accounts receivable and contract assets due from related parties amounted to \$90 million (2020 - \$96 million) and accounts payable due to related parties amounted to \$39 million (2020 - \$18 million). These amounts are included in accounts receivable and contract assets and accounts payable and accrued liabilities on the consolidated balance sheets. Receivables and payables with related parties are generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

### **Purchase of land in 2021**

In December 2021, the Company purchased land asset from ATCO Land and Development, an entity under common control of the parent company, for a total consideration of \$45 million (see Note 10).

### **OTHER**

In transactions with the Company's joint ventures, the Company recognized revenues of \$37 million relating to management fees and other charges (2020 - \$20 million).

In transactions with the Company's group pension plans, the Company paid occupancy costs of \$5 million relating to property owned by the pension plans (2020 - \$7 million).

The Company received \$1 million (2020 - less than \$1 million) in retail electricity and natural gas services revenue and incurred less than \$1 million (2020 - \$1 million) in advertising, promotion and other expenses from entities related through common control.

### **KEY MANAGEMENT COMPENSATION**

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

	2021	2020
Salaries and short-term employee benefits	13	9
Retirement benefits	2	2
Share-based compensation <sup>(1)</sup>	4	(3)
	19	8

*(1) In 2020, related to certain forfeitures of mid-term incentive plan grants.*

Key management personnel comprise members of executive management and the Board, a total of 25 individuals (2020 - 21 individuals).

## **32. ACCOUNTING POLICIES**

### **PRINCIPLES OF CONSOLIDATION**

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

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

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

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

### **JOINT ARRANGEMENTS**

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

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

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

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

## **BUSINESS COMBINATIONS**

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

## **REVENUE RECOGNITION**

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

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

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

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

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

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

### ***Electricity generation and delivery***

Revenue from independent power plant (IPP) contracts providing generation capacity to customers is recognized over the contract term and is measured based on fixed or variable capacity payments. Revenue from operating and maintaining the plant is recognized as the Company incurs costs to service the plant.

### ***Electricity and natural gas transmission***

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

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

### ***Electricity and natural gas distribution***

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

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

### ***Gas storage and transportation***

Revenue from hydrocarbon storage and transportation is recognized as the service is rendered to customers based on the length of the required service and contracted schedule of injections and withdrawals from the storage facilities.

### ***Lease revenue***

Power purchase arrangements (PPA) for the generation of electricity are accounted for as operating leases, finance leases or executory contracts, depending on the terms of the PPAs.

Operating lease PPAs are subject to incentives and penalties relating to the generating unit's availability. Incentives are paid to the Company by the PPA counterparties for availability in excess of predetermined targets, whereas penalties are paid by the Company to the PPA counterparties when the availability targets are not achieved. The Company recognizes operating lease income on a declining rate base method, in accordance with the lease contract. Accumulated incentives in excess of accumulated penalties are deferred and operating lease income is recognized over the remaining term of the PPA. Conversely, any shortfall is expensed in the year the shortfall occurs.

Certain PPAs are classified as finance leases. Finance lease income is included in revenues. Non-lease components of the PPAs are accounted for based on the applicable performance obligations.

### ***Franchise fees***

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

### **SHORT-TERM EMPLOYEE BENEFITS**

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

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

### **INCOME TAXES**

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

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

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

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

Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

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

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

### **CASH AND CASH EQUIVALENTS**

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

### **INVENTORIES**

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

The cost of inventories is comprised of all purchase, conversion and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services. Conversion costs include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

### **PROPERTY, PLANT AND EQUIPMENT**

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

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

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

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

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

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

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	10 to 67 years	51 years	2.0 %
Electricity distribution equipment	10 to 103 years	43 years	2.3 %
Gas transmission equipment	3 to 57 years	42 years	2.4 %
Gas distribution plant and equipment	3 to 120 years	40 years	2.5 %
Energy infrastructure plant and equipment:			
Gas-fired generation	15 years	14 years	7.4 %
Hydroelectric generation	43 to 50 years	50 years	1.8 %
Solar power generation	10 to 30 years	22 years	4.6 %
Other energy infrastructure	3 to 100 years	36 years	2.8 %
Buildings	10 to 50 years	29 years	3.4 %
Other plant, equipment and machinery	2 to 50 years	16 years	6.1 %

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

## INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 74 and 80 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

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

## IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

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

## LEASES

### *The Company as a lessee*

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

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

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

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

### ***The Company as a lessor***

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

### **ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE**

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

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

### **PROVISIONS**

The Company recognizes provisions when:

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

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

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

### **CONTINGENCIES**

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.



Neither contingent liabilities nor assets are recognized in the consolidated financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

### **ASSET RETIREMENT OBLIGATIONS**

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

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

### **FINANCIAL INSTRUMENTS**

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

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

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

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

#### ***Amortized cost***

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

#### ***Fair value through profit or loss***

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

#### ***Transaction costs***

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not classified as fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt are amortized over the life of the respective financial liability using the effective interest method. The Company's long-term debt and equity preferred shares are presented net of their respective transaction costs.

#### ***Offsetting financial instruments***

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

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

#### ***Derecognition of financial instruments***

Financial assets are derecognized:

- (i) when the right to receive cash flows from the financial assets has expired or been transferred, and

- (ii) the Company has transferred substantially all the risks and rewards of ownership.

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

### **Fair value hierarchy**

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

The hierarchy is as follows:

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

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

### **IMPAIRMENT OF FINANCIAL INSTRUMENTS**

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

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

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

For accounts receivable and contract assets and finance lease receivables, the Company estimates credit loss allowances at initial recognition and throughout the life of the receivable. For receivable under service concession arrangement, the Company estimates credit loss allowances from possible default events within the twelve months after the balance sheet date.

### **DERIVATIVE FINANCIAL INSTRUMENTS**

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

All derivative financial instruments are measured at fair value. The gain or loss that results from changes in fair value of the derivative is recognized in earnings immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of recognition in earnings depends on the hedging relationship.

Where the Company elects to apply hedge accounting, the Company documents the relationship between the derivative and the hedged item at inception of the hedge, based on the Company's risk management policies. A qualitative assessment of the effectiveness of the hedging relationship is performed at each reporting period if both the critical terms of the hedging relationship and the economic relationship between the hedged item and hedging instrument continue to remain the same or similar. If the mismatch in terms is significant, a quantitative assessment may be required. Ineffectiveness, if any, is measured at the end of each reporting period.

If the risk management hedge ratio used to form the economic relationship of the hedged item and hedging instrument changes, rebalancing of the hedging relationship is required. Under this circumstance, an adjustment to the quantities of the hedged item or hedging instrument would be allowed to realign the hedging relationship in

accordance with the appropriate risk management hedge ratio. The Company can only discontinue hedge accounting prospectively if there is no longer an economic relationship between the hedged item and hedging instrument, the risk management objective changes, the derivative no longer is designated as a hedging instrument, or the underlying hedged item is derecognized.

### **Cash flow hedges**

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

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

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

### **RETIREMENT BENEFITS**

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

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

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

Gains and losses resulting from experience adjustments and changes in assumptions used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

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

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

### **SHARE-BASED COMPENSATION PLANS**

The Company expenses stock options. The Company determines the fair value of the options on the date of grant. The fair value is recognized over the vesting period of the options granted by applying graded vesting, adjusted for estimated forfeitures. The fair value of the options is recorded in salaries, wages and benefits expense and contributed surplus. Contributed surplus is reduced as the options are exercised, and the amount initially recorded in contributed surplus is credited to Class A and Class B share capital.

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

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

## RELATED PARTY TRANSACTIONS

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

## FOREIGN CURRENCY TRANSLATION

### *Foreign currency transactions*

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

### *Foreign operations*

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

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

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

	Exchange Rates as at December 31		Average Exchange Rates for Year Ended December 31	
	2021	2020	2021	2020
U.S. dollar	1.2656	1.2838	1.2793	1.3415
Australian dollar	0.9200	0.9726	0.9164	0.9247

## ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At December 31, 2021, there are no new or amended standards and interpretations that need to be adopted in future periods and will have a significant impact on the Company.