



CANADIAN UTILITIES LIMITED
An **ATCO** Company

CANADIAN UTILITIES LIMITED
CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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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 material accounting and financial reporting matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements.

PricewaterhouseCoopers LLP, our independent auditors, are engaged to perform an audit of the consolidated financial statements and expresses a professional opinion on the results. The Independent Auditor's Report to the Share 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]

Chair & Chief Executive Officer

[Original signed by B.P. Shkrobot]

Executive Vice President & Chief Financial Officer

March 1, 2023



Independent auditor's report

To the Share Owners of Canadian Utilities Limited

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, 2022 and 2021, 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, 2022 and 2021;
- the consolidated statements of comprehensive income for the years ended December 31, 2022 and 2021;
- the consolidated balance sheets as at December 31, 2022 and 2021;
- the consolidated statements of changes in equity for the years ended December 31, 2022 and 2021;
- the consolidated statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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, 2022. 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

Assessment of retirement benefit obligations

Refer to note 14 – Retirement benefits and note 23 – Significant judgments, estimates and assumptions to the consolidated financial statements.

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, 2022, total accrued benefit obligations were \$2,550 million and the market value of plan assets was \$2,367 million. These balances are presented net on the consolidated balance sheet, resulting in a retirement benefit asset of \$21 million and retirement benefit obligations of \$204 million.

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.

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

- Tested how management determined the retirement benefit obligations, which included the following:
 - 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.
 - Tested certain underlying data used in the determination of retirement benefit obligations.
 - 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



Key audit matter	How our audit addressed the key audit matter
<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>actuaries, tests of the data used by management's independent actuaries and an evaluation of their findings.</p> <ul style="list-style-type: none"> • Tested disclosures related to the sensitivity assumptions used in estimating retirement benefit obligations.
<p>Assessment of unbilled revenue related to the Utilities segment</p> <p><i>Refer to note 4 – Revenues and note 23 – Significant Judgments, estimates and assumptions to the consolidated financial statements.</i></p> <p>The Company had \$180 million of unbilled revenue related to the Utilities segment as at December 31, 2022.</p> <p>The revenue recognized by the Company includes an estimate of consumption by customers of natural gas and electricity distribution services that has not yet been billed (unbilled revenue).</p> <p>The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is based on historical consumption patterns. Management applies judgment to the measurement and value of the estimated consumption.</p> <p>We 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.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> • Tested the reasonableness of the estimate of unbilled revenue through evidence obtained from events occurring up to the date of the auditor's report, which included the following: <ul style="list-style-type: none"> – Tested a sample of billings made after December 31, 2022 and compared the relevant amounts of these billings to the corresponding estimate of unbilled revenue recorded. – Agreed the pricing applied to a sample of billings to externally published rates. • Tested the operating effectiveness of internal controls relating to unbilled revenue, including information technology (IT) general controls of the relevant IT systems that management uses for billings.



Other information

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

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.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a



guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other



matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

[Original signed by "PricewaterhouseCoopers LLP"]

Chartered Professional Accountants

Calgary, Alberta
March 1, 2023

CONSOLIDATED STATEMENTS OF EARNINGS

		Year Ended December 31	
<i>(millions of Canadian Dollars except per share data)</i>	Note	2022	2021
Revenues	4	4,048	3,515
Costs and expenses			
Salaries, wages and benefits		(374)	(362)
Energy transmission and transportation		(271)	(266)
Plant and equipment maintenance		(233)	(203)
Fuel costs		(174)	(116)
Purchased power		(308)	(296)
Depreciation, amortization and impairment	10, 11, 16	(642)	(651)
Franchise fees		(328)	(263)
Property and other taxes		(70)	(70)
Other	5	(515)	(406)
		(2,915)	(2,633)
Earnings from investment in joint ventures	26	76	58
Operating profit		1,209	940
Interest income		36	11
Interest expense	6	(407)	(413)
Net finance costs		(371)	(402)
Earnings before income taxes		838	538
Income tax expense	7	(199)	(138)
Earnings for the year		639	400
Earnings attributable to:			
Equity owners of the Company		632	393
Non-controlling interests	27	7	7
		639	400
Earnings per Class A and Class B share	8	\$2.07	\$1.21
Diluted earnings per Class A and Class B share	8	\$2.06	\$1.21

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Note	Year Ended December 31	
		2022	2021
Earnings for the year		639	400
Other comprehensive income, net of income taxes			
<i>Items that will not be reclassified to earnings:</i>			
Re-measurement of retirement benefits ⁽¹⁾	14	(3)	181
<i>Items that are or may be reclassified subsequently to earnings:</i>			
Cash flow hedges ⁽²⁾	20	141	57
Foreign currency translation adjustment ⁽³⁾		6	(49)
Share of other comprehensive income of joint ventures ⁽³⁾	26	1	–
		148	8
Other comprehensive income		145	189
Comprehensive income for the year		784	589
Comprehensive income attributable to:			
Equity owners of the Company		777	582
Non-controlling interests		7	7
		784	589

(1) Net of income taxes of \$2 million year ended December 31, 2022 (2021 - \$(54) million).

(2) Net of income taxes of \$(45) million for the year ended December 31, 2022 (2021 - \$(19) million).

(3) Net of income taxes of nil (2021- nil).

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

December 31

<i>(millions of Canadian Dollars)</i>	Note	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	19	698	753
Accounts receivable and contract assets	15	873	759
Finance lease receivables	16	11	10
Inventories	9	24	21
Prepaid expenses and other current assets	10, 20	261	188
		1,867	1,731
Non-current assets			
Property, plant and equipment	10	18,596	18,008
Intangibles	11	819	726
Retirement benefit asset	14	21	87
Right-of-use assets	16	50	51
Investment in joint ventures	26	237	204
Finance lease receivables	16	138	149
Deferred income tax assets	7	26	33
Other assets	20	220	86
Total assets		21,974	21,075
LIABILITIES			
Current liabilities			
Bank indebtedness	19	–	3
Accounts payable and accrued liabilities		989	739
Lease liabilities	16	7	7
Provisions and other current liabilities	20, 29	215	132
Short-term debt	12	–	206
Long-term debt	13	106	331
		1,317	1,418
Non-current liabilities			
Deferred income tax liabilities	7	1,788	1,588
Retirement benefit obligations	14	204	268
Customer contributions	15	1,989	1,870
Lease liabilities	16	44	44
Other liabilities	20	132	88
Long-term debt	13	9,434	8,977
Total liabilities		14,908	14,253
EQUITY			
Equity preferred shares	17	1,571	1,571
Class A and Class B share owners' equity			
Class A and Class B shares	18	1,237	1,216
Contributed surplus		9	8
Retained earnings		3,936	3,862
Accumulated other comprehensive income (loss)		126	(22)
Total equity attributable to equity owners of the Company		6,879	6,635
Non-controlling interests	27	187	187
Total equity		7,066	6,822
Total liabilities and equity		21,974	21,075

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

(millions of Canadian Dollars)	Attributable to Equity Owners of the Company								
	Note	Class A and Class B Shares	Equity Preferred Shares	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total	Non-Controlling Interests	Total Equity
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
Earnings for the year		-	-	-	632	-	632	7	639
Other comprehensive income		-	-	-	-	145	145	-	145
Losses on retirement benefits transferred to retained earnings	14	-	-	-	(3)	3	-	-	-
Shares issued	17, 18	21	-	-	-	-	21	-	21
Dividends ⁽¹⁾	17, 18	-	-	-	(555)	-	(555)	(7)	(562)
Share-based compensation	28	1	-	1	-	-	2	-	2
Other		(1)	-	-	-	-	(1)	-	(1)
December 31, 2022		1,237	1,571	9	3,936	126	6,879	187	7,066

(1) For the year ended December 31, 2022, dividends attributable to equity owners of the Company of \$555 million includes \$20 million of dividends paid to Class A and Class B share owners by issuing 527,471 Class A shares under the Company's dividend reinvestment program (see note 18).

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year Ended December 31	
<i>(millions of Canadian Dollars)</i>	Note	2022	2021
Operating activities			
Earnings for the year		639	400
Adjustments to reconcile earnings to cash flows from operating activities	19	1,395	1,270
Changes in non-cash working capital	19	106	48
Cash flows from operating activities		2,140	1,718
Investing activities			
Additions to property, plant and equipment		(1,224)	(1,078)
Proceeds on disposal of property, plant and equipment		1	30
Additions to intangibles		(145)	(143)
Acquisition, net of cash acquired	24	–	(84)
Proceeds on sale of ownership interest in a subsidiary company, net of cash disposed	3	8	–
Investment in joint ventures	26	(8)	(27)
Changes in non-cash working capital	19	52	8
Other	10	60	32
Cash flows used in investing activities		(1,256)	(1,262)
Financing activities			
Net (repayment) issue of short-term debt	12	(206)	206
Issue of long-term debt	13, 19	576	461
Repayment of long-term debt	13, 19	(347)	(167)
Issue of equity preferred shares	17	–	201
Redemption of equity preferred shares	17	–	(110)
Repayment of lease liabilities	16	(8)	(10)
Net issue (purchase) of Class A shares	18	1	(117)
Dividends paid on equity preferred shares	17	(75)	(65)
Dividends paid to non-controlling interests	27	(7)	(7)
Dividends paid to Class A and Class B share owners	18	(460)	(476)
Interest paid		(401)	(385)
Other		(5)	(9)
Cash flows used in financing activities		(932)	(478)
Decrease in cash position ⁽¹⁾		(48)	(22)
Foreign currency translation		(4)	(6)
Beginning of year		750	778
End of year	19	698	750

(1) Cash position includes \$9 million which is not available for general use by the Company (2021 - \$7 million).

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(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 (energy storage, electricity generation, industrial water solutions, and clean fuels); 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 investments in joint ventures (see Note 26). In these financial statements, "the Company" means Canadian Utilities Limited, its subsidiaries and joint ventures.

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 March 1, 2023.

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

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 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:

Utilities	Electricity	The Utilities (Electricity) segment includes ATCO Electric, which provides regulated electricity transmission and distribution services in northern and central east Alberta, the Yukon, the Northwest Territories and in the Lloydminster area of Saskatchewan, and the Company's 50 per cent ownership interest in LUMA Energy, LLC, which provides international electricity operations (see Note 26).
	Natural Gas	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.
Energy Infrastructure		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.
Corporate & Other		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.

2022	Utilities				Energy Infrastructure	Corporate & Other	Intersegment eliminations	Consolidated
	2021	Electricity	Natural Gas	Eliminations				
Revenues - external	1,493	1,869	-	3,362	234	452	-	4,048
	1,402	1,628	-	3,030	162	323	-	3,515
Revenues - intersegment	21	7	(6)	22	78	25	(125)	-
	12	4	(5)	11	47	28	(86)	-
Revenues	1,514	1,876	(6)	3,384	312	477	(125)	4,048
	1,414	1,632	(5)	3,041	209	351	(86)	3,515
Operating expenses ⁽¹⁾	(591)	(961)	6	(1,546)	(257)	(595)	125	(2,273)
	(575)	(943)	5	(1,513)	(180)	(375)	86	(1,982)
Depreciation, amortization and impairment	(321)	(289)	-	(610)	(20)	(12)	-	(642)
	(322)	(277)	-	(599)	(42)	(10)	-	(651)
Earnings from investment in joint ventures	53	-	-	53	23	-	-	76
	47	-	-	47	11	-	-	58
Net finance costs	(222)	(146)	-	(368)	(9)	6	-	(371)
	(232)	(149)	-	(381)	(18)	(3)	-	(402)
Earnings (loss) before income taxes	433	480	-	913	49	(124)	-	838
	332	263	-	595	(20)	(37)	-	538
Income tax (expense) recovery	(100)	(127)	-	(227)	(10)	38	-	(199)
	(71)	(65)	-	(136)	(6)	4	-	(138)
Earnings (loss) for the year	333	353	-	686	39	(86)	-	639
	261	198	-	459	(26)	(33)	-	400
Adjusted earnings (loss)	375	339	-	714	35	(94)	-	655
	347	288	-	635	28	(77)	-	586
Total assets	10,644	8,865	(2)	19,507	1,342	1,350	(225)	21,974
	10,405	8,581	(2)	18,984	1,194	1,103	(206)	21,075
Capital expenditures ⁽²⁾	566	571	-	1,137	234	12	-	1,383
	350	747	-	1,097	120	10	-	1,227

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

(2) Includes additions to property, plant and equipment, intangibles and \$14 million of interest capitalized during construction for the year ended December 31, 2022 (2021 - \$6 million).

GEOGRAPHIC SEGMENTS

Financial information by geographic area for the year ended and as at December 31 is summarized below.

Revenues - external

	2022	2021
Canada	3,793	3,262
Australia	201	200
Other	54	53
Total	4,048	3,515

Non-current assets

	Property, Plant and Equipment		Intangible Assets		Other Assets ⁽¹⁾		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Canada	17,234	16,698	803	715	273	221	18,310	17,634
Australia	1,289	1,242	16	11	23	17	1,328	1,270
Other	73	68	–	–	61	55	134	123
Total	18,596	18,008	819	726	357	293	19,772	19,027

(1) Other assets exclude financial instruments, retirement benefit assets 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.

2022 2021	Utilities			Energy Infrastructure	Corporate & Other	Consolidated
	Electricity	Natural Gas	Total			
Adjusted earnings (loss)	375	339	714	35	(94)	655
	347	288	635	28	(77)	586
AUC enforcement proceeding	(27)	–	(27)	–	–	(27)
	(14)	–	(14)	–	–	(14)
Workplace COVID-19 vaccination standard	(3)	(5)	(8)	–	–	(8)
	–	–	–	–	–	–
Gain on sale of ownership interest in a subsidiary company	5	–	5	–	–	5
	–	–	–	–	–	–
Transition of managed IT services	–	–	–	–	–	–
	(14)	(25)	(39)	(1)	(2)	(42)
Impairment reversal (charge) and other costs	–	–	–	4	–	4
	–	–	–	(64)	(1)	(65)
Unrealized losses on mark-to-market forward and swap commodity contracts	–	–	–	–	(67)	(67)
	–	–	–	(2)	(16)	(18)
Rate-regulated activities	(12)	22	10	–	–	10
	(55)	(63)	(118)	–	–	(118)
Project cost recovery	–	–	–	–	–	–
	–	–	–	17	–	17
IT Common Matters decision	(9)	(6)	(15)	–	–	(15)
	(8)	(6)	(14)	–	–	(14)
Dividends on equity preferred shares of Canadian Utilities Limited	–	–	–	–	75	75
	1	1	2	–	63	65
Other	–	–	–	–	–	–
	–	–	–	(4)	–	(4)
Earnings (loss) attributable to equity owners of the Company	329	350	679	39	(86)	632
	257	195	452	(26)	(33)	393
Earnings attributable to non-controlling interests						7
						7
Earnings for the year						639
						400

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. A proceeding was commenced to determine whether ATCO Electric Transmission failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to a 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.

The AUC enforcement branch and ATCO Electric Transmission commenced settlement discussions in January 2022. On March 18, 2022, the AUC enforcement branch and ATCO Electric Transmission concluded discussions and notified the AUC that the parties had reached a settlement on all matters. On April 14, 2022, the AUC enforcement branch and ATCO Electric Transmission filed the settlement with the AUC, which reflected an agreed administrative penalty of \$31 million, a commitment to amend the ongoing Deferral Account application to ensure the estimated \$11 million of additional rate base remains excluded from customer rates, and the implementation of revised practices and policies. On June 29, 2022, the AUC issued its decision approving the settlement in its entirety.

In 2021 and 2022, the Company recognized costs of \$14 million and \$27 million (after-tax), respectively, related to the proceeding. As this proceeding is not in the normal course of business, these costs have been excluded from adjusted earnings.

Workplace COVID-19 vaccination standard

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

Gain on sale of ownership interest in a subsidiary company

On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in Northland Utilities Enterprises Ltd. (NUE) from 14 per cent to 50 per cent. NUE is an electric utility company operating in the Northwest Territories, Canada and was a subsidiary of ATCO Electric Ltd. The change in ownership interest was accomplished through the Company's sale to DII of a 36 per cent ownership interest in NUE for proceeds, net of cash disposed, of \$8 million. The transaction results in the Company and DII each having a 50 per cent ownership interest in NUE.

The share purchase agreement includes a put option whereby the Company may be required to purchase the 36 per cent ownership interest that was sold to DII for fair market value, if certain conditions occur.

Commencing March 31, 2022, the Company no longer consolidates NUE as a controlled subsidiary, and instead, accounts for NUE as an investment in joint venture using the equity method of accounting. The transaction resulted in a gain on sale of \$5 million after-tax. As the gain on sale is not in the normal course of business, it has been excluded from adjusted earnings.

Transition of managed IT services

In 2020, the ATCO Technology Management Ltd. (a wholly owned subsidiary of the Company) signed Master Services Agreements (MSAs) with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd. (Kyndryl)) to provide managed information technology services. In 2021, ATCO Gas Australia Pty Ltd and ATCO Australia Pty Ltd (both wholly owned subsidiaries of the Company) signed MSAs with IBM Australia Limited (IBM) to provide managed information technology services. These services were previously provided by Wipro Ltd. (Wipro) under ten-year MSAs expiring in December 2024. The transition of the managed IT services from Wipro to Kyndryl and 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, relating to the Wipro MSAs (see Note 29). The provisions are included in provisions and other current liabilities in the consolidated balance sheets. The onerous contract provisions are not in the normal course of business and have been excluded from adjusted earnings.

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

2022 Reversal of impairment

In 2022, a reversal of impairment of \$4 million after-tax was recorded relating to Energy Infrastructure's joint venture investment in the Osborne electricity cogeneration facility located in Southern Australia. The reversal resulted from an improvement in the future outlook for power market prices.

As the reversal relates to a previous impairment, it has been excluded from adjusted earnings.

2021 Impairment and other costs

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 (see notes 10 and 11). Other costs recorded were individually immaterial.

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

The recoverable amount of Energy Infrastructure's Veracruz hydro facility was determined based on fair value less costs of disposal. The expected future cash flows were estimated under an assumption of 43 years of operations,

representing the useful life of the Veracruz hydro facility, and were discounted at an after-tax rate of approximately 10 per cent. The fair value measurement is categorized as level 3 on the fair value hierarchy. 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.

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 fixed-price swap commodity contracts are recognized in the earnings of the Corporate & Other segment.

The CODM believes that removal of the unrealized gains and 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 Transmission, ATCO Electric Distribution, ATCO Electric Yukon, Northland Utilities (NWT), Northland Utilities (Yellowknife), 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:

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1. Additional revenues billed in current year	Future removal and site restoration costs, and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2. Revenues to be billed in future years	Deferred income taxes, 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:

	2022	2021
<i>Additional revenues billed in current period</i>		
Future removal and site restoration costs ⁽¹⁾	114	107
Impact of colder temperatures ⁽²⁾	3	-
<i>Revenues to be billed in future periods</i>		
Deferred income taxes ⁽³⁾	(105)	(105)
Distribution rate relief ⁽⁴⁾	-	(119)
Impact of warmer temperatures ⁽²⁾	-	(1)
Impact of inflation on rate base ⁽⁵⁾	(65)	(31)
<i>Settlement of regulatory decisions and other items</i>		
Distribution rate relief ⁽⁴⁾	104	-
Other ⁽⁶⁾	(41)	31
	10	(118)

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

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

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

(4) In 2021, in response to the ongoing COVID-19 Pandemic, ATCO Electric Distribution and ATCO Gas Distribution applied 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 in 2021 of \$119 million (after-tax). Based on direction from the AUC, collection of 2021 deferred rate amounts commenced in 2022 and for the year ended December 31, 2022, \$104 million (after-tax) was billed to customers.

(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 2022, ATCO Electric Distribution recorded a decrease in earnings of \$18 million (after-tax) related to payments of electricity transmission costs and ATCO Gas Distribution recorded a decrease in earnings of \$15 million (after-tax) related to payments of gas pipeline system load balancing costs. In 2021, ATCO Gas Distribution collected \$53 million (after-tax) related to depreciation and transmission rate riders, which was partly offset by a decrease in earnings of \$28 million (after-tax) related to payments of transmission costs.

Project cost recovery

In 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 this project recovery is not a result of day-to-day operations, it has 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 2022 was \$15 million after-tax (2021 - \$14 million after-tax).

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:

2022	Utilities			Energy Infrastructure	Corporate & Other ⁽²⁾	Consolidated
2021	Electricity ⁽¹⁾	Natural Gas ⁽¹⁾	Total			
Revenue Streams						
Rendering of Services						
Distribution services	609	1,187	1,796	-	-	1,796
	548	1,036	1,584	-	-	1,584
Transmission services	724	337	1,061	-	-	1,061
	712	308	1,020	-	-	1,020
Customer contributions	33	22	55	-	-	55
	33	22	55	-	-	55
Franchise fees	36	292	328	-	-	328
	34	229	263	-	-	263
Retail electricity and natural gas services	-	-	-	-	431	431
	-	-	-	-	304	304
Storage and industrial water	-	-	-	66	-	66
	-	-	-	28	-	28
Total rendering of services	1,402	1,838	3,240	66	431	3,737
	1,327	1,595	2,922	28	304	3,254
Sale of Goods						
Electricity generation and delivery	-	-	-	46	-	46
	-	-	-	38	-	38
Commodity sales	-	-	-	80	-	80
	-	-	-	52	-	52
Total sale of goods	-	-	-	126	-	126
	-	-	-	90	-	90
Lease income						
Finance lease	-	-	-	14	-	14
	-	-	-	16	-	16
Other	91	31	122	28	21	171
	75	33	108	28	19	155
Total	1,493	1,869	3,362	234	452	4,048
	1,402	1,628	3,030	162	323	3,515

(1) For the year ended December 31, 2022, Electricity and Natural Gas segments include \$180 million of unbilled revenue (2021 - \$156 million). At December 31, 2022, \$180 million of the unbilled revenue is included in accounts receivable and contract assets (December 31, 2021 - \$156 million).

(2) For the year ended December 31, 2022, Corporate & Other segment includes \$63 million of unbilled revenue (2021 - \$58 million) from retail electricity and natural gas energy services. At December 31, 2022, \$63 million of the unbilled revenue is included in accounts receivable and contract assets (December 31, 2021 - \$58 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, 2022, the most significant remaining performance obligations are as follows:

- (i) the Company's 35-year service agreement to operate the Fort McMurray 500 kV Transmission line that amounts to \$0.8 billion (2021 - \$0.8 billion). The remaining duration of the agreement is 32 years. The Company expects that approximately 2 per cent of the amount will be recognized as revenue during the year ending December 31, 2023, subject to satisfaction of related performance obligations; and
- (ii) provision of storage and industrial water services over the life of the contracts that in aggregate approximates \$0.3 billion (2021 - \$0.3 billion). The remaining duration of the contracts ranges between 6 to 25 years. The Company expects that approximately 12 per cent of the amount will be recognized as revenue during the year ending December 31, 2023.

5. OTHER COSTS AND EXPENSES

Other costs and expenses include rent, utilities, goods and services such as professional fees, contractor costs, technology-related expenses, advertising, and other general and administrative expenses. For the year ended December 31, 2022, other costs and expenses also included unrealized and realized losses on commodity contracts of \$165 million (2021 - \$39 million), costs related to the AUC Enforcement proceeding of \$28 million (2021 - \$16 million), gain on sale of ownership interest in a subsidiary company of \$7 million (2021 - nil) and transition of managed information technology services of nil (2021 - \$55 million).

6. INTEREST EXPENSE

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

	2022	2021
Long-term debt	392	390
Retirement benefits net interest expense (<i>Note 14</i>)	6	11
Accretion expense on asset retirement obligation	1	10
Amortization of deferred financing charges	4	4
Short-term debt	11	2
Interest expense on lease liabilities (<i>Note 16</i>)	1	1
Other	6	1
	421	419
Less: interest capitalized (<i>Notes 10, 11</i>)	(14)	(6)
	407	413

Borrowing costs capitalized to property, plant and equipment and intangibles during 2022 were calculated by applying a weighted average interest rate of 3.93 per cent (2021 - 4.31 per cent) to expenditures on qualifying assets.

7. INCOME TAXES

INCOME TAX EXPENSE

The income tax rate for 2022 is 23.0 per cent (2021 - 23.0 per cent).

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

	2022	2021
Current income tax expense		
Canada	34	20
Australia	-	(9)
Other	1	4
Adjustment in respect of prior years	(3)	5
	32	20
Deferred income tax expense		
Reversal of temporary differences	163	122
Adjustment in respect of prior years	4	(4)
	167	118
	199	138

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

	2022		2021	
Earnings before income taxes	838	%	538	%
Income taxes, at statutory rates	193	23.0	124	23.0
Equity earnings	(16)	(1.9)	(8)	(1.5)
Non-deductible items	7	0.9	2	0.4
Tax cost on equity preferred share financing	6	0.7	5	0.9
Foreign tax rate variance	6	0.7	-	-
Unrecognized deferred income tax assets	1	0.1	13	2.4
Other	2	0.2	2	0.4
	199	23.7	138	25.6

INCOME TAX ASSETS AND LIABILITIES

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

Balance Sheet Presentation		2022	2021
Income tax assets			
Current	Prepaid expenses and other current assets	29	32
Deferred	Deferred income tax assets	26	33
		55	65
Income tax liabilities			
Current	Provisions and other current liabilities	12	5
Deferred	Deferred income tax liabilities	1,788	1,588
		1,800	1,593

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, 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
Credit (charge) to earnings	-	-	10	(24)	1	-	(13)
Credit to other comprehensive income	-	-	3	-	-	-	3
Other	-	-	-	-	-	3	3
December 31, 2022	(5)	-	3	9	9	10	26

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, 2020	1,552	100	(20)	(65)	(128)	(23)	1,416
Charge (credit) to earnings	118	1	(1)	4	2	(30)	94
Charge to other comprehensive income	-	-	7	-	53	-	60
Acquisition (Note 24)	24	-	-	-	-	-	24
Foreign exchange adjustment	(6)	-	-	-	-	1	(5)
Other	(2)	-	-	-	-	1	(1)
December 31, 2021	1,686	101	(14)	(61)	(73)	(51)	1,588
Charge (credit) to earnings	142	19	(10)	(13)	-	16	154
Charge (credit) to other comprehensive income	-	-	48	-	(2)	-	46
Other	(13)	(1)	-	-	-	14	-
December 31, 2022	1,815	119	24	(74)	(75)	(21)	1,788

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

At December 31, 2022, the Company had \$456 million of non-capital tax losses and credits which expire between 2024 and 2042 and \$15 million of tax losses and credits which do not expire. The Company recognized deferred income tax assets of \$83 million for these losses and credits. The Company had \$122 million of aggregate temporary differences for which deferred income tax assets were not recognized (2021 - \$93 million).

8. EARNINGS PER SHARE

Earnings per Class A non-voting common (Class A) and Class B voting 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:

	2022	2021
Average shares		
Weighted average shares outstanding	269,133,415	269,855,016
Effect of dilutive stock options	98,351	29,268
Effect of dilutive MTIP	435,932	432,250
Weighted average dilutive shares outstanding	269,667,698	270,316,534
Earnings for earnings per share calculation		
Earnings for the year	639	400
Dividends on equity preferred shares of the Company	(75)	(65)
Dividends to non-controlling interests	(7)	(7)
Earnings attributable to Class A and B shares	557	328
Earnings and diluted earnings per Class A and Class B share		
Earnings per Class A and Class B share	\$2.07	\$1.21
Diluted earnings per Class A and Class B share	\$2.06	\$1.21

9. INVENTORIES

Inventories at December 31 are comprised of:

	2022	2021
Natural gas and fuel in storage	16	15
Raw materials and consumables	8	6
	24	21

For the year ended December 31, 2022, inventories of \$5 million were used in operations and expensed (2021 - \$10 million).

Inventories with a carrying value of \$2 million were pledged as security for liabilities at December 31, 2022 (2021 - nil).

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
Cost						
December 31, 2020	21,004	393	700	566	800	23,463
Additions	65	–	44	985	3	1,097
Transfers	895	8	12	(942)	27	–
Retirements and disposals	(110)	–	–	(175)	(19)	(304)
Acquisition (Note 24)	–	104	2	–	–	106
Foreign exchange rate adjustment	(83)	(4)	(2)	(3)	(2)	(94)
Changes to asset retirement costs	–	(1)	–	–	–	(1)
December 31, 2021	21,771	500	756	431	809	24,267
Additions	58	–	–	1,185	2	1,245
Transfers	693	102	14	(854)	45	–
Retirements and disposals	(123)	(5)	(2)	(8)	(26)	(164)
Sale of ownership interest in a subsidiary company (Note 3)	(111)	–	(8)	(2)	(5)	(126)
Foreign exchange rate adjustment	4	11	–	–	–	15
Changes to asset retirement costs	–	5	–	–	–	5
December 31, 2022	22,292	613	760	752	825	25,242
Accumulated depreciation and impairment						
December 31, 2020	5,119	153	164	79	385	5,900
Depreciation and impairment	486	32	19	69	50	656
Retirements and disposals	(110)	–	–	(148)	(19)	(277)
Foreign exchange rate adjustment	(17)	(1)	–	–	(2)	(20)
December 31, 2021	5,478	184	183	–	414	6,259
Depreciation	500	15	17	–	52	584
Retirements and disposals	(111)	(5)	(2)	–	(26)	(144)
Sale of ownership interest in a subsidiary company (Note 3)	(52)	–	(3)	–	(2)	(57)
Foreign exchange rate adjustment	1	3	–	–	–	4
December 31, 2022	5,816	197	195	–	438	6,646
Net book value						
December 31, 2021	16,293	316	573	431	395	18,008
December 31, 2022	16,476	416	565	752	387	18,596

The additions to property, plant and equipment included \$9 million of interest capitalized during construction for the year ended December 31, 2022 (2021 - \$2 million).

PIONEER NATURAL GAS PIPELINE

In 2021, ATCO Gas and Pipelines Ltd., a wholly owned subsidiary of CU Inc., completed the acquisition of a 131 km natural gas pipeline that runs from the Drayton Valley area to the Wabamum area west of Edmonton (Pioneer Pipeline) from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation for approximately \$265 million. The optional IFRS 3 *Business Combinations* concentration test was applied to the acquisition, which resulted in the acquired asset being accounted for as an asset acquisition.

In 2022, consistent with the geographic areas defined in the Integration Agreement, ATCO Gas and Pipelines Ltd. completed the sale to Nova Gas Transmission Ltd. (NGTL) of the 30 km segment of the Pioneer Pipeline that is located in NGTL's footprint for \$63 million. At December 31, 2021, the costs incurred for the segment of the pipeline

sold to NGTL were recorded as assets held-for-sale in prepaid expenses and other current assets in the consolidated balance sheets. The 2021 purchase and 2022 sale were included in other investing activities in the consolidated statements of cash flows for the years ended December 31, 2021 and 2022.

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).

IMPAIRMENT

Energy Infrastructure Segment

In 2021, impairment of property, plant and equipment 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.

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
Cost					
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
Additions	11	-	138	-	149
Transfers	69	21	(93)	3	-
Retirements	(37)	-	-	(1)	(38)
Sale of ownership interest in subsidiary company (Note 3)	(1)	(1)	(2)	-	(4)
December 31, 2022	437	457	200	47	1,141
Accumulated amortization and impairment					
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
Amortization	46	5	-	1	52
Retirements	(37)	-	-	(1)	(38)
December 31, 2022	213	70	-	39	322
Net book value					
December 31, 2021	191	372	157	6	726
December 31, 2022	224	387	200	8	819

The additions to intangibles include interest capitalized during construction of \$5 million for the year ended December 31, 2022 (2021 - \$4 million).

IMPAIRMENT

Energy Infrastructure Segment

In 2021, impairment of intangibles 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, 2022, the Company had no commercial paper outstanding (2021 - \$206 million of commercial paper outstanding at an effective interest rate of 0.32 per cent, matured 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	2022	2021
CU Inc. debentures - unsecured ⁽¹⁾	4.397% (2021 - 4.410%)	8,525	8,440
CU Inc. other long-term obligation, due June 2024 - unsecured ⁽²⁾	6.45% (2021 - 2.45%)	7	7
Canadian Utilities Limited debentures - unsecured, 3.122%, due November 2022	3.187%	-	200
Canadian Utilities Limited debentures - unsecured, 4.851%, due June 2052	4.899%	250	-
ATCO Power Australia credit facility, payable in Australian dollars, at BBSY rates, due June 2025, secured by a pledge of project assets and contracts, \$45 million AUD (2021 - \$58 million AUD) ⁽³⁾	Floating ⁽⁴⁾	42	47
ATCO Gas Australia revolving credit facility, payable in Australian dollars, at BBSY rates, due August 2024, \$350 million AUD (2021 - \$350 million AUD) ⁽³⁾	Floating ⁽⁴⁾	322	322
ATCO Gas Australia revolving credit facility, payable in Australian dollars, at BBSY rates, due August 2026, \$362 million AUD (2021 - \$330 million AUD) ⁽³⁾	Floating ⁽⁴⁾	334	304
Electricidad del Golfo credit facility, payable in Mexican pesos, at Mexican Interbank rates, due November 2025, \$335 million MXP (2021 - \$570 million MXP)	11.31% (2021 - Floating)	23	35
ATCO Energy Solutions Ltd. and ATCO Power (2010) Ltd. extendible revolving credit facility, at CDOR or Canadian prime rates, due December 2025 ⁽³⁾	Floating	88	-
Less: deferred financing charges		(51)	(47)
		9,540	9,308
Less: amounts due within one year		(106)	(331)
		9,434	8,977

BBSY - Bank Bill Swap Benchmark Rate

CDOR - Canadian Dollar Overnight Rate

- (1) Interest rate is the average effective interest rate weighted by principal amounts outstanding.
- (2) In 2022, the expiry date of the CU Inc. other long-term obligation was extended from June 2023 to June 2024.
- (3) During 2022, the above interest rates had additional margin fees at a weighted average rate of 0.88 per cent (2021 - 0.92 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).

LONG TERM DEBT ISSUANCES AND REPAYMENTS

On June 3, 2022, the Company issued \$250 million of 4.851 per cent debentures maturing on June 3, 2052. The Company also repaid \$200 million of 3.122 per cent debentures on November 9, 2022.

On September 14, 2022, CU Inc., a wholly owned subsidiary of the Company, issued \$210 million of 4.773 per cent debentures maturing on September 14, 2052. CU Inc. also repaid \$125 million of 9.92 per cent debentures on April 1, 2022.

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

On December 8, 2022, ATCO Energy Solutions Ltd. and ATCO Power (2010) Ltd., wholly owned subsidiaries of the Company, entered into a \$250 million extendible credit agreement maturing in December 2025 with a syndicate of lenders, as well as an aggregate \$100 million of uncommitted credit facilities with no set maturity date.

PLEDGED 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.

The ATCO Energy Solutions Ltd. and ATCO Power (2010) Ltd. credit agreement is secured by their present and future properties, assets, and equity interests in certain subsidiaries and joint ventures.

At December 31, 2022, the book value of assets pledged to maintain the Company's long-term credit facilities was \$901 million (2021 - \$91 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 for the year ended December 31 are as follows:

	2022		2021	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Market value of plan assets				
Beginning of year	2,992	-	3,015	-
Interest income	90	-	74	-
Employer contributions	8	-	11	-
Benefit payments	(140)	-	(134)	-
Return on plan assets, excluding amounts included in interest income	(583)	-	26	-
End of year	2,367	-	2,992	-
Accrued benefit obligations				
Beginning of year	3,051	122	3,292	134
Current service cost	9	2	13	3
Interest cost	92	4	82	3
Benefit payments from plan assets	(140)	-	(134)	-
Benefit payments by employer	(8)	(5)	(7)	(4)
Past service cost	1	-	-	-
Actuarial gains	(542)	(36)	(195)	(14)
End of year	2,463	87	3,051	122
Funded status				
Net retirement benefit obligations	96	87	59	122
Included in net retirement benefit obligations are:				
Registered funded defined benefit pension plan asset ⁽¹⁾	(21)	-	(87)	-
Non-registered, non-funded defined benefit pension plan obligation ⁽²⁾	117	-	146	-
OPEB Plans	-	87	-	122
	96	87	59	122

(1) The registered funded defined benefit pension plan was in an asset position of \$21 million at December 31, 2022 (2021- \$87 million) due to the impacts of returns on plan assets, increase in the liability discount rate, 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 \$117 million at December 31, 2022 due to an increase in the liability discount rate and experience adjustments (2021 - decreased to \$146 million due to an increase in the liability discount rate and experience adjustments).

BENEFIT PLAN COST

The components of benefit plan cost for the year ended December 31 are as follows:

	2022		2021	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Current service cost	9	2	13	3
Interest cost	92	4	82	3
Interest income	(90)	–	(74)	–
Past service cost	1	–	–	–
Defined benefit plans cost	12	6	21	6
Defined contribution plans cost	27	–	27	–
Total cost	39	6	48	6
Less: capitalized	16	3	20	3
Net cost recognized in earnings	23	3	28	3

RE-MEASUREMENT OF RETIREMENT BENEFITS

Re-measurements of the pension and OPEB plans for the year ended December 31 are as follows:

	2022		2021	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
(Losses) gains on plan assets from:				
Return on plan assets, excluding amounts included in net interest income	(583)	–	26	–
Gains on plan obligations from:				
Changes in financial assumptions	542	36	195	14
(Losses) gains recognized in other comprehensive income⁽¹⁾	(41)	36	221	14

(1) Losses net of income taxes were \$3 million for the year ended December 31, 2022 (2021 - gains net of income taxes of \$181 million).

PLAN ASSETS

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

Plan asset mix	2022				2021			
	Quoted	Un-quoted	Total	%	Quoted	Un-quoted	Total	%
Equity securities								
Public								
Canada	2	-	2		3	-	3	
United States	99	-	99		147	-	147	
International	54	-	54		81	-	81	
Private	-	2	2		-	2	2	
	155	2	157	7	231	2	233	8
Fixed income securities								
Government bonds	1,033	-	1,033		1,415	-	1,415	
Corporate bonds and debentures	719	-	719		821	-	821	
Securitizations	46	-	46		50	-	50	
Mortgages	-	121	121		-	149	149	
	1,798	121	1,919	81	2,286	149	2,435	81
Real estate								
Land and building ⁽¹⁾	-	13	13		-	13	13	
Real estate funds	-	223	223		-	212	212	
	-	236	236	10	-	225	225	8
Cash and other assets								
Cash	45	-	45		46	-	46	
Short-term notes and money market funds	7	-	7		44	-	44	
Accrued interest and dividends receivable	3	-	3		9	-	9	
	55	-	55	2	99	-	99	3
	2,008	359	2,367	100	2,616	376	2,992	100

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

FUNDING

In 2022, an actuarial valuation for funding purposes as of December 31, 2021 was completed for the registered defined benefit pension plans. The estimated contribution for 2023 is \$8 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2024.

WEIGHTED AVERAGE ASSUMPTIONS

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

	2022		2021	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	3.16 %	3.16 %	2.58 %	2.58 %
Average compensation increase for the year	2.25 %	n/a	2.25 %	n/a
Accrued benefit obligations				
Discount rate at December 31	5.28 %	5.28 %	3.16 %	3.16 %
Long-term inflation rate ⁽¹⁾	2.00 %	n/a	2.00 %	n/a
Health care cost trend rate:				
Drug costs ⁽²⁾	n/a	5.00 %	n/a	5.05 %
Other medical costs	n/a	4.00 %	n/a	4.00 %
Dental costs	n/a	4.00 %	n/a	4.00 %

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

(2) The Company uses a graded drug cost trend rate, which assumes a 5.00 per cent rate per annum (2021 - 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 12.7 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

The Company mitigates interest rate risk by holding a large proportion of pension assets in fixed income securities. A decrease in long-term interest rates will result in an increase in the accrued benefit obligations, which will be partially offset by an increase in the value of the plan's fixed income securities. Other things remaining the same, the opposite is also true.

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 2022 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 %	(260)	313	4	(6)
Future compensation rate	1 %	3	(2)	-	-
Long-term inflation rate ⁽¹⁾	1 %	308	(260)	9	(7)
Health care cost trend rate	1 %	7	(6)	-	-
Life expectancy	10 %	(59)	65	(2)	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:

	2022	2021
Trade accounts receivable and contract assets	779	646
Accounts receivable from parent company	62	90
Other accounts receivable	32	23
	873	759
Contract assets included in other assets	3	3
	876	762

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

	2022	2021
Beginning of year	649	543
Revenue from satisfied performance obligations	3,842	3,358
Customer billings and other items not included in revenue	475	458
Credit loss allowance	(1)	(1)
Acquisition (Note 24)	-	1
Payments received	(4,176)	(3,708)
Sale of ownership interest in a subsidiary company (Note 3)	(6)	-
Foreign exchange rate adjustment and other	(1)	(2)
End of year	782	649

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.

	2022	2021
Beginning of year	1,870	1,756
Receipt of customer contributions	178	169
Amortization	(55)	(55)
Transfers from other liabilities and foreign exchange rate adjustment	5	-
Sale of ownership interest in a subsidiary company (<i>Note 3</i>)	(9)	-
End of year	1,989	1,870

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:

	2022	2021
Cost		
Beginning of year	79	76
Additions	7	4
Disposals	(3)	(1)
End of year	83	79
Accumulated depreciation		
Beginning of year	28	20
Depreciation	8	9
Disposals	(3)	(1)
End of year	33	28
Net book value	50	51

Lease liabilities

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

	Note	2022	2021
Beginning of year		51	56
Additions		7	4
Interest expense	6	1	1
Lease payments		(8)	(10)
End of year		51	51
Less: amounts due within one year		(7)	(7)
End of year		44	44

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

In one year or less	11
In more than one year, but not more than five years	34
In more than five years	38
	83

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

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.

	2022	2021
Net investment in finance leases		
Finance lease - gross investment	271	275
Unearned finance income	(122)	(116)
	149	159
Current portion	11	10
Non-current portion	138	149
	149	159
Gross receivables from finance leases		
In one year or less	25	26
In more than one year, but not more than five years	101	102
In more than five years	145	147
	271	275
Net investment in finance leases		
In one year or less	11	10
In more than one year, but not more than five years	55	50
In more than five years	83	99
	149	159

During the year ended December 31, 2022, \$2 million of contingent rent was recognized as income from these finance leases (2021 - \$2 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, 2022		December 31, 2021	
	Shares	Amount	Shares	Amount
Cumulative Redeemable Second Preferred Shares				
5.196% 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	8,050,000	201
Issuance costs		(30)		(30)
		1,571		1,571

In June 2022, the annual dividend rate for the Series Y Preferred Shares was reset to 5.196 per cent for the next five years. Prior to June 2022, the annual dividend rate was 3.403 per cent.

In December 2021, the Company issued 8,050,000 Series HH Preferred Shares yielding 4.75 per cent per annum for \$198 million (net of \$3 million issuance costs).

Rights and privileges

Preferred shares	Redemption Amount ⁽¹⁾	Quarterly Dividend ⁽²⁾	Reset Premium ⁽³⁾	Date Redeemable/Convertible	Convertible To
Cumulative Redeemable Second Preferred Shares					
Series Y	25.00	0.32475	2.40 %	June 1, 2027 ⁽⁴⁾	Series Z ⁽⁵⁾
Series AA	25.00	0.30625	Does not reset	September 1, 2017 ⁽⁶⁾	Not convertible
Series BB	25.00	0.30625	Does not reset	September 1, 2017 ⁽⁶⁾	Not convertible
Series CC	25.00	0.28125	Does not reset	June 1, 2018 ⁽⁶⁾	Not convertible
Series DD	25.00	0.28125	Does not reset	September 1, 2018 ⁽⁶⁾	Not convertible
Series EE	25.00	0.328125	Does not reset	September 1, 2020 ⁽⁶⁾	Not convertible
Series FF	25.00	0.28125	3.69 %	December 1, 2025 ⁽⁴⁾	Series GG ⁽⁵⁾
Series HH	25.00	0.296875	Does not reset	March 1, 2027 ⁽⁶⁾	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:

<i>(dollars per share)</i>	2022	2021
Cumulative Redeemable Second Preferred Shares		
5.196% Series Y ⁽¹⁾	1.0754	0.8508
4.90% Series AA	1.2250	1.2250
4.90% Series BB	1.2250	1.2250
4.50% Series CC	1.1250	1.1250
4.50% Series DD	1.1250	1.1250
5.25% Series EE	1.3125	1.3125
4.50% Series FF	1.1250	1.1250
4.75% Series HH ⁽²⁾	1.1574	-
Perpetual Cumulative Second Preferred Shares		
4.60% Series V ⁽³⁾	-	0.7456

(1) The annual dividend rate for the Series Y Preferred Shares was reset to 5.196 per cent in June 2022.

(2) The 4.75 per cent Series HH Preferred Shares were issued in December 2021.

(3) The Company redeemed all of the issued 4.60 per cent Series V Preferred Shares for \$110 million plus accrued dividends 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 12, 2023, the Company declared first quarter dividends of \$0.32475 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 \$0.296875 per Series HH Preferred Share, payable on March 1, 2023 to share owners of record as of February 2, 2023.

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 common		Class B Voting common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2020	199,410,836	1,109	73,449,889	139	272,860,725	1,248
Stock options exercised	62,400	2	-	-	62,400	2
Purchased and cancelled	(3,576,004)	(20)	-	-	(3,576,004)	(20)
Converted: Class B to Class A	1,061,615	2	(1,061,615)	(2)	-	-
December 31, 2021	196,958,847	1,093	72,388,274	137	269,347,121	1,230
Shares issued	527,471	20	-	-	527,471	20
Stock options exercised	30,400	1	-	-	30,400	1
Converted: Class B to Class A	3,839,609	7	(3,839,609)	(7)	-	-
December 31, 2022	201,356,327	1,121	68,548,665	130	269,904,992	1,251

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.

	2022		2021	
	Shares	Amount	Shares	Amount
Shares issued and outstanding	269,904,992	1,251	269,347,121	1,230
Shares held in trust for the mid-term incentive plan	(435,008)	(14)	(435,902)	(14)
Shares outstanding, net of shares held in trust	269,469,984	1,237	268,911,219	1,216

DIVIDENDS

The Company declared and paid cash dividends of \$1.7768 per Class A and Class B share during 2022 (2021 - \$1.7592). 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 12, 2023, the Company declared a first quarter dividend of \$0.4486 per Class A and Class B share, payable on March 1, 2023 to share owners of record as of February 2, 2023.

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 and Class B share owners who are enrolled in the program. The DRIP was previously suspended effective January 10, 2019.

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

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

During the year ended December 31, 2022, 527,471 Class A shares were issued under the DRIP, using re-invested dividends of \$20 million. The shares were priced at an average of \$37.26 per share.

NORMAL COURSE ISSUER BID

On July 29, 2021, the Company began a normal course issuer bid, to purchase up to 3,930,623 outstanding Class A shares. The bid expired on July 28, 2022.

No shares were purchased during the year ended December 31, 2022 (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).

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.

	2022	2021
Depreciation, amortization and impairment	642	651
Dividends and distributions received from investment in joint ventures	69	45
Earnings from investment in joint ventures	(76)	(58)
Income tax expense	199	138
Unrealized losses on derivative financial instruments	89	26
Contributions by customers for extensions to plant	178	169
Amortization of customer contributions	(55)	(55)
Net finance costs	371	402
Income taxes paid	(25)	(47)
Interest received	32	10
Other	(29)	(11)
	1,395	1,270

CHANGES IN NON-CASH WORKING CAPITAL

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

	2022	2021
Operating activities		
Accounts receivable and contract assets	(155)	(105)
Inventories	(3)	7
Prepaid expenses and other current assets	5	(7)
Accounts payable and accrued liabilities	264	153
Provisions and other current liabilities	(5)	-
	106	48
Investing activities		
Accounts receivable and contract assets	7	(12)
Accounts payable and accrued liabilities	45	20
	52	8

DEBT RECONCILIATION

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

	Short-term debt	Long-term debt
Liabilities from financing activities		
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
Net (repayment) issue of debt	(206)	229
Foreign currency translation	–	7
Debt issue costs	–	(8)
Amortization of deferred financing charges	–	4
December 31, 2022	–	9,540

See Note 16 for the reconciliation of the changes in lease liability for the years ended December 31, 2022 and 2021.

CASH POSITION

Cash position at December 31 is comprised of:

	2022	2021
Cash	687	744
Short-term investments	2	2
Restricted cash ⁽¹⁾	9	7
Cash and cash equivalents	698	753
Bank indebtedness	–	(3)
	698	750

(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
Measured at Amortized Cost	
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 and long-term advances due from joint venture	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).
Measured at Fair Value	
Interest rate swaps	Determined using interest rate forward 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 or forward 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	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Finance lease receivables	149	185	159	215
Long-term advances due from joint venture ⁽¹⁾	33	30	-	-
Financial Liabilities				
Long-term debt	9,540	8,565	9,308	10,830

(1) Long-term advances due from joint venture are recorded in other assets on the consolidated balance sheets.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Company's derivative instruments are measured at fair value. At December 31 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; and
- natural gas and forward power sale and purchase contracts for the purpose of limiting exposure to electricity and natural gas market price movements.

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

Recurring Measurements	Subject to Hedge Accounting		Not Subject to Hedge Accounting	Total Fair Value of Derivatives
	Interest Rate Swaps	Commodities ⁽²⁾	Commodities ⁽³⁾	
December 31, 2022				
Financial Assets				
Prepaid expenses and other current assets ⁽¹⁾	5	184	4	193
Other assets ⁽¹⁾	45	91	14	150
Financial Liabilities				
Provisions and other current liabilities ⁽¹⁾	1	36	98	135
Other liabilities ⁽¹⁾⁽²⁾	2	33	21	56
December 31, 2021				
Financial Assets				
Prepaid expenses and other current assets ⁽¹⁾	–	52	2	54
Other assets ⁽¹⁾	8	35	6	49
Financial Liabilities				
Provisions and other current liabilities ⁽¹⁾	1	12	20	33
Other liabilities ⁽¹⁾	–	8	6	14

(1) At December 31, 2022, financial assets and financial liabilities include \$18 million and \$137 million, respectively, of Level 3 derivative financial instruments (December 31, 2021 - financial assets and financial liabilities included \$8 million and \$26 million, respectively, of Level 3 derivative financial instruments).

(2) In 2022, the Company executed two 15-year renewable power purchase agreements with Microsoft Corporation on certain renewable generation facilities. Under the agreements, the Company will receive a fixed price per megawatt per hour (MWh) and pay the settled price per MWh from the Alberta Electric System Operator as well as deliver the related renewable energy credits. The Company designated the energy component within the agreements as cash flow hedges. At December 31, 2022, other liabilities include \$18 million of derivative financial liabilities, calculated using an internal forecasting model. Inputs to the model (Level 3) to calculate fair value include electricity generation forecast volumes and extrapolated forward power prices. The sensitivity of a 10 per cent increase or decrease in electricity generation forecast volumes and extrapolated forward power prices would increase or decrease fair value of derivatives by \$2 million and \$44 million, respectively.

(3) Derivative financial instruments related to customer contracts in the Company's retail electricity and natural gas business are calculated using an internal forecasting model. Inputs to the model (Level 3) to calculate fair value of derivatives include electricity and natural gas forecast consumption volumes. The sensitivity of a 10 per cent increase or decrease in electricity and natural gas forecast consumption volumes would increase or decrease the fair value of derivatives by \$11 million and \$1 million, respectively (2021 - \$1 million and \$2 million, respectively).

A reconciliation of the Company's derivative financial instruments classified as Level 3 is summarized as follows:

	Subject to Hedge Accounting	Not Subject to Hedge Accounting	Total
December 31, 2020 ⁽¹⁾	-	(1)	(1)
Settlement of derivative contracts	-	35	35
Losses recognized in earnings	-	(52)	(52)
December 31, 2021 ⁽¹⁾	-	(18)	(18)
Settlement of derivative contracts	-	95	95
Losses recognized in earnings	-	(178)	(178)
Losses recognized in other comprehensive income	(18)	-	(18)
December 31, 2022 ⁽¹⁾	(18)	(101)	(119)

⁽¹⁾ Net financial (liabilities) assets classified as Level 3 at end of year.

For the year ended December 31, the following realized and unrealized gains and losses on derivative financial instruments were recognized in the consolidated statements of earnings:

	2022			2021		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Realized gains (losses)						
Revenues	(28)	-	(28)	(19)	-	(19)
Fuel costs	16	-	16	6	-	6
Purchase power	113	-	113	53	-	53
Other costs and expenses	19	(95)	(76)	22	(35)	(13)
	120	(95)	25	62	(35)	27
Unrealized gains (losses)						
Other costs and expenses	(6)	(83)	(89)	(9)	(17)	(26)
Total	114	(178)	(64)	53	(52)	1

Hedge ineffectiveness of \$14 million was recognized in the consolidated statements of earnings during 2022 (2021 - \$14 million).

During the year ended December 31, 2022, unrealized gains before income taxes of \$274 million were recognized in other comprehensive income (OCI) (2021 - unrealized gains of \$106 million), and \$88 million of realized gains were reclassified to the consolidated statements of earnings (2021 - \$30 million).

Over the next 12 months, the Company estimates that net gains before income taxes of \$128 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 ⁽¹⁾	Power ⁽²⁾	Foreign Currency Forward Contracts	Natural Gas ⁽¹⁾	Power ⁽²⁾	Foreign Currency Forward Contracts
December 31, 2022							
Purchases ⁽³⁾	–	35,272,100	4,234,062	–	–	–	–
Sales ⁽³⁾	–	1,227,947	10,451,215	–	24,050,972	2,181,310	–
Currency							
Canadian dollars	355	–	–	–	–	–	–
Australian dollars	725	–	–	–	–	–	–
Mexican pesos	–	–	–	–	–	–	23
Maturity	2023-2045	2023-2026	2023-2038	N/A	2023-2027	2023-2027	2023
December 31, 2021							
Purchases ⁽³⁾	–	23,062,900	3,240,005	–	–	–	–
Sales ⁽³⁾	–	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

(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
2022			
Financial Assets			
Derivative assets ⁽¹⁾⁽²⁾	303	–	303
Accounts receivable and contract assets	61	(56)	5
Financial Liabilities			
Derivative liabilities ⁽¹⁾⁽³⁾	191	–	191
2021			
Financial Assets			
Derivative assets ⁽¹⁾⁽²⁾	95	–	95
Accounts receivable and contract assets	65	(39)	26
Financial Liabilities			
Derivative liabilities ⁽¹⁾⁽³⁾	46	–	46

(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, 2022, \$194 million is included in prepaid expenses and other assets, and \$109 million is included in other assets in the consolidated balance sheets (2021 - \$54 million and \$41 million).

(3) At December 31, 2022, \$135 million is included in provisions and other current liabilities, and \$56 million is included in other liabilities in the consolidated balance sheets (2021 - \$32 million and \$14 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, short-term debt 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 99 per cent (2021 - 100 per cent) of total long-term debt. Consequently, the exposure to fluctuations in market interest rates is limited.

A 100 basis point increase or decrease in interest rates would increase or decrease earnings by \$1 million (2021 - nil) and increase or decrease OCI by \$12 million (2021 - \$12 million). This analysis has been determined based on the exposure to interest rates for financial instruments outstanding at December 31, 2022.

Interest rate benchmark reform risk

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative reference rates (IBOR reform). IBOR reform could impact interest rates with respect to the Company's credit facilities, debt agreements and interest rate swap agreements that are referenced to IBORs. The Company is currently managing the transition so that the existing credit facilities and agreements that refer to IBORs shall be modified to ensure continuity of financing arrangements and address differences between IBORs and alternative reference rates.

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 the U.S. dollar and Australia dollar would each increase or decrease earnings and OCI by less than \$1 million (2021 - less than \$1 million). 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, 2022.

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 natural gas storage, retail energy and electricity generation 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 prices.

A 10 per cent increase or decrease in the forward prices of natural gas or electricity at December 31 would increase or decrease earnings or OCI as follows:

	2022		2021	
	Earnings	OCI	Earnings	OCI
Forward prices of natural gas	8	10	3	5
Forward prices of electricity	23	3	8	16

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 receivables and derivative instrument assets. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated balance sheets.

The Company manages its credit risk on cash 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 receivables credit risk is reduced by transacting with credit-worthy customers in accordance with the established credit approval policies, and a large and diversified customer base and through collateral arrangements such as letters of credit, corporate guarantees and cash deposits. The Alberta 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, 2022	0%-0.02%	0.05%-0.14%	0.46%-2.99%
December 31, 2021	0%-0.02%	0.05%-0.15%	0.48%-3.13%

At December 31, 2022, the Company had \$19 million of accounts receivable and contract assets classified as Low (BB and below) (2021 - \$24 million).

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

The credit loss recognized during 2022 was \$3 million (2021 - \$1 million). As at December 31, 2022, the expected credit loss allowance balance was \$4 million (2021 - \$5 million).

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

	2022	2021
Up to 30 days	761	611
31 to 60 days	9	7
61 to 90 days	2	4
Over 90 days	7	24
	779	646

At December 31, 2022, the Company held \$606 million in letters of credit for certain counterparty receivables (2021 - \$285 million). The Company did not take possession of any collateral it holds as security in 2022 or 2021. 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 flows from operations provide a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances, bank borrowings and issuance of long-term debt and 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:

	2022			2021		
	Total	Used	Available	Total	Used	Available
Long-term committed	2,718	744	1,974	2,467	832	1,635
Uncommitted	638	257	381	553	185	368
	3,356	1,001	2,355	3,020	1,017	2,003

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:

	2022	2021
Short-term debt	–	206
Long-term debt	744	626
Letters of credit	257	185
	1,001	1,017

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, 2022, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2023	2024	2025	2026	2027	2028 and thereafter
Accounts payable and accrued liabilities	989	–	–	–	–	–
Long-term debt:						
Principal	106	455	118	357	–	8,555
Interest expense ⁽¹⁾	406	400	399	394	362	6,636
Derivatives ⁽²⁾	160	52	21	10	10	–
	1,661	907	538	761	372	15,191

(1) Interest payments on floating rate debt have been estimated using rates in effect at December 31, 2022. 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, 2022.

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, as reported in the consolidated financial statements for the year ended December 31, 2021.

	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	304	8,094
Interest expense ⁽¹⁾	357	354	347	342	345	6,431
Derivatives ⁽²⁾	32	9	4	1	–	–
	1,665	511	799	373	649	14,525

(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.

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:

	2022	2021
Bank indebtedness	–	3
Short-term debt	–	206
Long-term debt	9,540	9,308
Total debt	9,540	9,517
Class A and Class B shares	1,237	1,216
Contributed surplus	9	8
Retained earnings	3,936	3,862
Accumulated other comprehensive income (loss)	126	(22)
Equity preferred shares	1,571	1,571
Non-controlling interests	187	187
Total equity	7,066	6,822
Total capitalization	16,606	16,339
Debt capitalization	57 %	58 %

For the year ended December 31, 2022, 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 including the potential impact of climate change and energy transition risks, 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.

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

Impairment of financial assets

The impairment loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. 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 including the potential impact of climate change and energy transition risks.

Impairment of long-lived assets

The Company continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, the Company estimates the recoverable amount for 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 estimates used 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 either the most likely amount method or the expected value method based on the sum of the probability-weighted amounts in a range of possible outcomes, depending on which method the Company expects to better estimate the amount of the provision.

Fair Value Measurements

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

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 included cash acquired of \$51 million and identifiable assets acquired and liabilities assumed of \$84 million. There was 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 and equipment	106
Intangible assets	5
Deferred income tax liabilities	(24)
Other liabilities	(4)
Total identifiable net assets acquired	84

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.

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
ATCO Energy Solutions Ltd.	Canada	Develops, owns and operates non-regulated energy and water-related infrastructure
Electricidad del Golfo, S. de R.L. de C.V.	Mexico	Electricity generation and related infrastructure services
ATCO Gas Australia Pty Ltd	Australia	Natural gas distribution services
ATCO Australia Pty Ltd	Australia	Electricity generation services
ATCO Energy Ltd.	Canada	Electricity and natural gas retailer and a provider of whole-home solutions
ATCO Power (2010) Ltd.	Canada	Electricity generation and related infrastructure services
CU Inc.	Canada	Holding company
ATCO Electric Ltd. ⁽¹⁾	Canada	Electricity transmission, distribution, and related infrastructure services
ATCO Gas and Pipelines Ltd. ⁽²⁾	Canada	Natural gas transmission, distribution, and related infrastructure services

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

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

26. INVESTMENT IN JOINT VENTURES

The carrying amount of the investment in joint ventures for the year ended December 31 is as follows:

	Strathcona Storage LP		Other joint ventures		Total	
	2022	2021	2022	2021	2022	2021
Beginning of year	147	137	57	28	204	165
The Company's share of net earnings	10	11	66	47	76	58
The Company's share of other comprehensive income	-	-	1	-	1	-
Dividends received	(14)	(14)	(55)	(31)	(69)	(45)
Change in ownership of NUE (Note 3)	-	-	17	-	17	-
Contributions	3	13	5	14	8	27
Foreign exchange	-	-	-	(1)	-	(1)
End of year	146	147	91	57	237	204

Strathcona Storage LP

Strathcona Storage Limited Partnership (Strathcona Storage LP) is a partnership that operates hydrocarbon storage facilities at the Alberta Industrial Heartland near Fort Saskatchewan, Alberta. The facility consists of five underground storage salt caverns, which have a combined storage capacity of 544,000 cubic metres (m³).

The Company holds a 60 per cent ownership in Strathcona Storage LP and its equity interest is included in the Energy Infrastructure segment.

Selected information from the statement of earnings for the year ended December 31 of Strathcona Storage LP is as follows:

	2022	2021
Statement of earnings		
Revenues	35	34
Depreciation and amortization	(7)	(6)
Operating expenses	(12)	(10)
Earnings	16	18
The Company's share of earnings	10	11

Strathcona Storage LP had no other comprehensive income for the years ended December 31, 2022 and 2021.

Summarized financial information from the balance sheet at December 31 of Strathcona Storage LP is provided below.

	2022	2021
Balance sheet		
Cash and cash equivalents	2	6
Other current assets	5	5
Current assets	7	11
Non-current assets	253	252
Total assets	260	263
Current liabilities	(4)	(9)
Non-current liabilities	(13)	(10)
Total liabilities	(17)	(19)
Net assets	243	244
The Company's share of net assets	146	147

Other joint ventures

Other joint ventures of the Company comprise 10 joint ventures, which include LUMA Energy and Osborne Cogeneration Facility described below.

LUMA Energy

LUMA Energy, LLC (LUMA Energy) is a limited liability company formed to transform, modernize and operate Puerto Rico's 30,000 km electricity transmission and distribution system under an Operations and Maintenance Agreement with the Puerto Rico Public-Private Partnerships Authority and the Puerto Rico Electric Power Authority (PREPA) over a term of 15 years. Under the terms of the agreement, LUMA Energy will not assume ownership of the electricity transmission and distribution system. The Company provided a guarantee of up to \$105 million USD to PREPA in connection with the services to be performed by LUMA Energy under the Operations and Maintenance Agreement.

LUMA Energy currently operates under the terms of a Supplemental Agreement, which was extended on November 30, 2022 and will continue until such time that PREPA's bankruptcy is resolved. The agreement allows LUMA Energy to collect an annualized fixed fee equivalent of \$115 million USD (Company's proportionate share is \$58 million USD). Following the resolution of PREPA's bankruptcy proceeding, LUMA Energy will transition to year one of the Operations and Maintenance Agreement.

The Company holds a 50 per cent ownership in LUMA Energy and its interest is reported in the Utilities, Electricity segment.

For the year ended December 31, 2022, the Company's share in LUMA Energy's net earnings and dividends received amounted to \$53 million (2021 - \$47 million) and \$51 million (2021 - \$22 million), respectively.

Osborne Cogeneration Facility

The Osborne Cogeneration Facility is a 180 megawatt natural gas-fired combined cycle facility located in South Australia. The facility has a power purchase agreement (PPA) with Origin Energy Electricity Limited (Origin Energy). In 2018, the Company negotiated a five-year extension to the PPA with Origin Energy to December 31, 2023. On February 3, 2023, the Company executed an extension to the current PPA. The extension is for a period of three years with a further one year option. The terms of the extension are similar to the current tolling arrangement with increased flexibility and dispatch capability for the customer.

The Company holds a 50 per cent ownership in the Osborne Cogeneration Facility and its interest is reported in the Energy Infrastructure segment.

For the year ended December 31, 2022, the Company's share in Osborne Cogeneration Facility's net earnings and dividends amounted to \$12 million (2021 - less than \$1 million) and \$5 million (2021 - \$8 million), respectively.

Commitments

The joint ventures have contractual obligations in the normal course of business. The Company's total share of these unrecognized commitments, based on contractual undiscounted cash flows, was \$7 million at December 31, 2022 (2021 - \$10 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	Shares	2022	Shares	2021
		Amount		Amount
Cumulative Redeemable Preferred Shares				
4.60% Series 1	4,600,000	115	4,600,000	115
2.292% Series 4 ⁽¹⁾	3,000,000	75	3,000,000	75
Issuance costs		(3)		(3)
		187		187

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

(1) Plus accrued and unpaid dividends.

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

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

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

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

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 ⁽¹⁾⁽²⁾	Officers and key employees	20% per year over 5 years	10 years	Class A shares ⁽⁴⁾
		25% per year over 4 years	8 years	Class A shares ⁽⁴⁾
Share appreciation rights ⁽¹⁾	Directors, officers and key employees	20% per year over 5 years	10 years	Cash
	International executives and key employees	4 years	4 years	Cash
Mid-term incentive plan	Officers and key employees	2-3 years ⁽³⁾	2-3 years	Class A shares ⁽⁵⁾

(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.

	2022		2021	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options authorized for grant	12,800,000		12,800,000	
Options available for issuance ⁽¹⁾	10,774,500		2,905,900	
Outstanding options, beginning of year	1,524,750	\$35.63	1,252,850	\$35.26
Granted	539,000	40.78	525,000	35.75
Exercised	(30,400)	34.08	(62,400)	31.97
Forfeited	(32,250)	37.29	(190,700)	34.72
Expired	(2,500)	33.68	–	–
Outstanding options, end of year	1,998,600	\$37.02	1,524,750	\$35.63
Options exercisable, end of year	876,650	\$36.32	641,300	\$36.91

⁽¹⁾ The share owners voted to approve the replenishment of the stock option plan by 8,372,850 Class A shares on May 4, 2022.

Options	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Range of Exercise Prices					
\$29.97	3,000	3.0	\$29.97	3,000	\$29.97
\$32.09 - \$34.13	499,750	5.8	32.50	280,400	32.68
\$35.34 - \$39.76	912,750	5.0	37.04	521,150	37.70
\$40.78 - \$41.54	583,100	7.0	40.88	72,100	40.81
\$29.97 - \$41.54	1,998,600	5.8	\$37.02	876,650	\$36.32

Compensation expense related to stock options was \$1 million in 2022 (2021 - \$1 million), 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.

	2022		2021	
	SARs	Weighted Average Exercise Price	SARs	Weighted Average Exercise Price
Outstanding SARs, beginning of year	707,500	\$37.73	758,850	\$37.26
Granted	40,000	40.75	44,000	34.26
Exercised	(19,600)	34.12	(65,650)	32.13
Forfeited	(26,500)	36.36	(29,700)	38.05
Expired	(2,500)	33.68	-	-
Outstanding SARs, end of year	698,900	\$37.85	707,500	\$37.73
SARs exercisable, end of year	568,450	\$37.91	535,550	\$37.84

SARs	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$29.97	3,000	3.0	\$29.97	3,000	\$29.97
\$32.09 - \$34.13	114,150	4.8	33.87	82,300	34.12
\$35.76 - \$39.76	473,650	3.4	38.18	411,050	38.22
\$40.78 - \$41.54	108,100	2.8	40.84	72,100	40.81
\$29.97 - \$41.54	698,900	3.6	\$37.85	568,450	\$37.91

In 2022, compensation expense related to SARs was less than \$1 million (2021 - expense of \$1 million). The total carrying value of liabilities arising from SARs at December 31, 2022 was \$3 million (2021 - \$2 million). The total intrinsic value of all vested SARs at December 31, 2022 and December 31, 2021 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:

	2022		2021	
	Options	SARs	Options	SARs
Class A share price	\$40.91	\$40.75	\$37.75	\$35.76
Risk-free interest rate	3.18 %	3.63 %	1.07 %	0.67 %
Share price volatility ⁽¹⁾	21.35 %	25.50 %	24.09 %	26.54 %
Estimated annual Class A share dividend	4.42 %	4.44 %	4.89 %	4.89 %
Expected holding period prior to exercise	6.8 years	4 years	6.8 years	4 years

(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.

MID-TERM INCENTIVE PLAN

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

	2022		2021	
	MTIPs	Weighted Average Grant Date Fair Value	MTIPs	Weighted Average Grant Date Fair Value
Outstanding MTIPs, beginning of year	21,850	\$35.97	61,950	\$35.02
Exercised	(21,250)	35.97	(29,850)	34.38
Forfeited ⁽¹⁾	(600)	35.97	(10,250)	34.89
Outstanding MTIPs, end of year	-	-	21,850	\$35.97
Unallocated shares held by trustees ⁽²⁾	435,008		414,052	
Total number of shares held by trustees, end of year	435,008		435,902	

(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.

Compensation expense related to MTIP awards was less than \$1 million for 2022 with a corresponding increase to contributed surplus (2021 - less than \$1 million with a corresponding increase to contributed surplus). The Company, through a trustee, did not purchase any shares during 2022 to be distributed to employees on vesting of the awards (2021 - nil).

29. CONTINGENCIES

IT Master Services Agreements

In 2020, ATCO Technology Management Ltd. (a wholly owned subsidiary of the Company) signed Master Services Agreements (MSAs) with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) to provide managed information technology services. In 2021, ATCO Gas Australia Pty Ltd and ATCO Australia Pty Ltd (both wholly owned subsidiaries of the Company) signed MSAs with IBM Australia Limited, to provide managed information technology services. These services were previously provided by Wipro Ltd. (Wipro) under ten-year MSAs expiring in December 2024. The Company recognized onerous contract provisions in 2020 and 2021 of \$71 million and \$6 million relating to the Wipro MSAs, which were included in provisions and other current liabilities in the consolidated balance sheets. On February 26, 2023, the matters relating to the Wipro MSAs were concluded resulting in no significant changes to the onerous contract provisions.

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:

	2023	2024	2025	2026	2027	2028 and thereafter
Purchase obligations:						
Operating and maintenance agreements	522	436	130	81	66	119
Capital expenditures	376	-	-	-	-	-
Acquisition (Note 33)	713	-	-	-	-	-
Other	8	6	22	6	6	6
	1,619	442	152	87	72	125

31. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH PARENT AND AFFILIATE COMPANIES

Transaction	Recorded As	2022	2021
Executive fleet management, rental and other services	Revenues	16	13
Administrative expenses, rent expense and licensing fees	Other expenses	17	20

At December 31, 2022, accounts receivable and contract assets due from related parties amounted to \$62 million (2021 - \$90 million) and accounts payable due to related parties amounted to \$34 million (2021 - \$39 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 generally unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

At December 31, 2022, the Company had \$33 million of unsecured interest-bearing long-term advances due from NUE, a joint venture. These advances are included in other assets on the consolidated balance sheets.

Purchase of land in 2021

In December 2021, the Company purchased land 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 \$32 million relating to management fees and other charges (2021 - \$37 million).

In transactions with the Company's group pension plans, the Company paid occupancy costs of \$3 million relating to property owned by the pension plans (2021 - \$5 million).

The Company received \$1 million (2021 - \$1 million) in retail electricity and natural gas services revenue and incurred \$2 million (2021 - less than \$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.

	2022	2021
Salaries and short-term employee benefits	11	13
Retirement benefits	2	2
Share-based compensation	3	4
	16	19

Key management personnel comprise members of executive management and the Board, a total of 25 individuals (2021 - 25 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 electricity generation, capacity and related products under power purchase arrangements (PPAs) or in the merchant market is recognized based on output delivered and capacity provided over the contract term and is measured at rates agreed in the PPAs or rates prevailing in the spot market. Revenue from operating and maintaining the generation 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

Certain power purchase arrangements (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.

MARKETABLE SECURITIES INVESTMENTS

Marketable securities investments include highly-liquid short term debt and equity investments with a maturity of more than 90 days but not exceeding one year at the time of 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	25 to 67 years	52 years	1.9 %
Electricity distribution equipment	15 to 103 years	42 years	2.4 %
Gas transmission equipment	3 to 57 years	42 years	2.4 %
Gas distribution plant and equipment	3 to 120 years	41 years	2.5 %
Energy infrastructure plant and equipment:			
Gas-fired generation	15 years	13 years	7.5 %
Hydroelectric generation	43 to 50 years	56 years	1.8 %
Solar power generation	10 to 30 years	21 years	4.8 %
Wind power generation	30 years	30 years	3.3 %
Other energy infrastructure	3 to 100 years	32 years	3.1 %
Buildings	10 to 50 years	40 years	2.5 %
Other plant, equipment and machinery	2 to 50 years	17 years	6.0 %

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

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

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

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

Contingent assets are not recognized in the consolidated financial statements.

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

ASSET RETIREMENT OBLIGATIONS

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

Amortized cost

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

Fair value through profit or loss

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

Transaction costs

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

Offsetting financial instruments

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

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

Derecognition of financial instruments

Financial assets are derecognized:

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

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

Fair value hierarchy

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

The hierarchy is as follows:

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

Impairment losses on financial assets carried at amortized cost are calculated as the difference between the amortized cost and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses on financial assets carried at amortized cost may be reversed in whole or

in part if there is evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods.

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

For accounts receivable and contract assets 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 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	
	2022	2021	2022	2021
U.S. dollar	1.3546	1.2656	1.3013	1.2793
Australian dollar	0.9212	0.9200	0.9034	0.9164

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At December 31, 2022, 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.

33. SUBSEQUENT EVENT

ACQUISITION OF RENEWABLE ENERGY BUSINESS

On January 3, 2023, ATCO Power (2010) Ltd., a wholly owned subsidiary of the Company, acquired from Suncor Energy Inc. a portfolio of wind and solar assets and projects in Alberta and Ontario, Canada. The aggregate consideration paid was \$713 million, which included cash acquired of \$38 million and identifiable assets acquired and liabilities assumed of \$675 million. The aggregate consideration paid is subject to working capital adjustments. The transaction was financed by a non-revolving credit facility issued by a syndicate of lenders. The acquisition will be accounted for as a business acquisition and its results will be reported in the Energy Infrastructure operating segment starting in the first quarter of 2023.

The preliminary fair value calculation of the major classes of assets acquired and liabilities assumed is shown below which will be finalized within one year.

Assets	
Accounts receivable and contract assets	6
Property, plant and equipment	641
Construction work-in-progress	46
Intangible assets	61
Other assets	9
Goodwill	150
Total assets	913
Liabilities and non-controlling interest	
Accounts payable and accrued liabilities	(46)
Deferred income tax liabilities	(150)
Other liabilities	(8)
Non-controlling interest	(34)
Total liabilities and non-controlling interest	(238)
Total identifiable net assets acquired	675

Transaction costs of \$2 million for incremental legal and advisory services fees were expensed during the year ended December 31, 2022 and included in other costs and expenses in the consolidated statements of earnings.

In December 2022, the Company entered into a 15-year renewable power purchase agreement with Microsoft Corporation relating to the 202 megawatt (MW) Forty Mile Wind Phase 1 project. The agreement was contingent upon the successful acquisition of the project included in the transaction. Under the agreement, Microsoft Corporation will purchase 150 MW of the generation capacity and related renewable energy credits generated by the project for a fixed price once fully energized. The Company will receive a fixed price per MW hour (MWh) and pay the settled price per MWh from the Alberta Electric System Operator.