



An **ATCO** Company

CU INC.
INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

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CONSOLIDATED STATEMENTS OF EARNINGS

<i>(millions of Canadian Dollars)</i>	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2021	2020	2021	2020
Revenues	4	623	601	1,997	1,991
Costs and expenses					
Salaries, wages and benefits		(52)	(47)	(152)	(157)
Energy transmission and transportation		(68)	(60)	(198)	(168)
Plant and equipment maintenance		(47)	(40)	(117)	(118)
Fuel costs		(3)	(2)	(8)	(8)
Purchased power		(20)	(19)	(68)	(66)
Depreciation and amortization		(132)	(130)	(399)	(385)
Franchise fees		(48)	(43)	(187)	(179)
Property and other taxes		(17)	(16)	(51)	(51)
Other		(65)	(52)	(212)	(178)
		(452)	(409)	(1,392)	(1,310)
Operating profit		171	192	605	681
Interest income		–	1	1	1
Interest expense		(91)	(92)	(273)	(275)
Net finance costs		(91)	(91)	(272)	(274)
Earnings before income taxes		80	101	333	407
Income tax expense		(19)	(24)	(78)	(98)
Earnings for the period		61	77	255	309

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(millions of Canadian Dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Earnings for the period	61	77	255	309
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified to earnings:				
Re-measurement of retirement benefits ⁽¹⁾	8	(2)	17	(8)
Comprehensive income for the period	69	75	272	301

(1) Net of income taxes of \$(3) million and \$(6) million for the three and nine months ended September 30, 2021 (2020 - \$1 million and \$3 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

<i>(millions of Canadian Dollars)</i>	Note	September 30 2021	December 31 2020
ASSETS			
Current assets			
Cash		32	13
Short-term advances to parent company		65	65
Accounts receivable and contract assets		284	380
Trade accounts receivable from parent and affiliate companies		8	13
Inventories		16	14
Prepaid expenses and other current assets	5	107	16
		512	501
Non-current assets			
Property, plant and equipment	5	16,143	15,815
Intangibles		660	602
Right-of-use assets		9	11
Other assets		23	23
Total assets		17,347	16,952
LIABILITIES			
Current liabilities			
Bank indebtedness		4	3
Short-term advances from parent company		65	97
Accounts payable and accrued liabilities		324	405
Accounts payable to parent and affiliate companies		25	11
Lease liabilities		1	2
Provisions and other current liabilities		66	93
Long-term debt	6	285	160
		770	771
Non-current liabilities			
Deferred income tax liabilities		1,452	1,368
Retirement benefit obligations		154	176
Customer contributions		1,804	1,727
Lease liabilities		9	9
Other liabilities		10	11
Long-term debt	6	8,276	7,941
Total liabilities		12,475	12,003
EQUITY			
Equity preferred shares		187	187
Equity preferred shares to parent company	7	-	79
Class A and Class B share owner's equity			
Class A and Class B shares		1,056	1,056
Retained earnings		3,629	3,627
		4,685	4,683
Total equity		4,872	4,949
Total liabilities and equity		17,347	16,952

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(millions of Canadian Dollars)</i>	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2019		1,056	266	3,664	–	4,986
Earnings for the period		–	–	309	–	309
Other comprehensive loss		–	–	–	(8)	(8)
Losses on retirement benefits transferred to retained earnings		–	–	(8)	8	–
Dividends	7, 8	–	–	(93)	–	(93)
September 30, 2020		1,056	266	3,872	–	5,194
December 31, 2020		1,056	266	3,627	–	4,949
Earnings for the period		–	–	255	–	255
Other comprehensive income		–	–	–	17	17
Gains on retirement benefits transferred to retained earnings		–	–	17	(17)	–
Redemption of equity preferred shares to parent company	7	–	(79)	–	–	(79)
Dividends	7, 8	–	–	(270)	–	(270)
September 30, 2021		1,056	187	3,629	–	4,872

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(millions of Canadian Dollars)</i>	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2021	2020	2021	2020
Operating activities					
Earnings for the period		61	77	255	309
Adjustments to reconcile earnings to cash flows from operating activities	9	249	224	803	734
Changes in non-cash working capital		(51)	(52)	(12)	7
Cash flows from operating activities		259	249	1,046	1,050
Investing activities					
Additions to property, plant and equipment		(157)	(160)	(685)	(536)
Additions to intangibles		(32)	(25)	(90)	(45)
Changes in non-cash working capital		4	17	(6)	(6)
Other	5	1	–	(62)	–
Cash flows used in investing activities		(184)	(168)	(843)	(587)
Financing activities					
Issue of long-term debt	6	460	150	460	150
Redemption of equity preferred shares to parent company	7	(79)	–	(79)	–
Repayment of lease liabilities		(1)	–	(2)	(1)
Dividends paid on equity preferred shares	7	(3)	(3)	(8)	(8)
Dividends paid to Class A and Class B share owner	8	(87)	(85)	(262)	(85)
Interest paid		(78)	(75)	(259)	(261)
Other		(2)	(1)	(3)	(1)
Cash flows from (used in) financing activities		210	(14)	(153)	(206)
Increase in cash position		285	67	50	257
Beginning of period		(257)	261	(22)	71
End of period	9	28	328	28	328

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

SEPTEMBER 30, 2021

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

1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 4th Floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

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

The unaudited interim consolidated financial statements include the accounts of CU Inc. and its subsidiaries (the Company).

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

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

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

The unaudited interim consolidated financial statements were authorized for issue by the Audit Committee, on behalf of the Board of Directors, on October 27, 2021.

BASIS OF MEASUREMENT

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

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

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Use of judgments and estimates around the COVID-19 pandemic

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

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

The Company is currently reviewing the application of the decision to determine the impact, if any, it will have on the consolidated financial statements. Any changes resulting from the decision are required to be implemented by December 31, 2021.

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

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

2021					
2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	341	282	-	-	623
	334	267	-	-	601
Revenues - intersegment	-	1	-	(1)	-
	1	-	-	(1)	-
Revenues	341	283	-	(1)	623
	335	267	-	(1)	601
Operating expenses ⁽¹⁾	(125)	(196)	-	1	(320)
	(112)	(168)	-	1	(279)
Depreciation and amortization	(76)	(56)	-	-	(132)
	(76)	(54)	-	-	(130)
Net finance costs	(56)	(34)	(1)	-	(91)
	(57)	(33)	(1)	-	(91)
Earnings (loss) before income taxes	84	(3)	(1)	-	80
	90	12	(1)	-	101
Income tax (expense) recovery	(20)	1	-	-	(19)
	(21)	(3)	-	-	(24)
Earnings (loss) for the period	64	(2)	(1)	-	61
	69	9	(1)	-	77
Adjusted earnings (loss)	73	3	(1)	-	75
	70	4	(1)	-	73
Capital expenditures ⁽³⁾	84	107	-	-	191
	84	104	-	-	188

Results by operating segment for the nine months ended September 30 are shown below.

2021					
2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	1,000	997	-	-	1,997
	993	998	-	-	1,991
Revenues - intersegment	2	1	-	(3)	-
	2	1	-	(3)	-
Revenues	1,002	998	-	(3)	1,997
	995	999	-	(3)	1,991
Operating expenses ⁽¹⁾	(369)	(627)	-	3	(993)
	(356)	(572)	-	3	(925)
Depreciation and amortization	(232)	(167)	-	-	(399)
	(228)	(157)	-	-	(385)
Net finance costs	(169)	(100)	(3)	-	(272)
	(172)	(96)	(6)	-	(274)
Earnings (loss) before income taxes	232	104	(3)	-	333
	239	174	(6)	-	407
Income tax (expense) recovery	(54)	(25)	1	-	(78)
	(56)	(43)	1	-	(98)
Earnings (loss) for the year	178	79	(2)	-	255
	183	131	(5)	-	309
Adjusted earnings (loss)	231	131	(3)	-	359
	226	134	(5)	-	355
Total assets ⁽²⁾	10,340	7,005	4	(2)	17,347
	10,272	6,645	47	(12)	16,952
Capital expenditures ⁽³⁾	257	526	-	-	783
	271	320	-	-	591

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

(2) 2020 comparatives are at December 31, 2020.

(3) Includes additions to property, plant and equipment, intangibles and \$2 million and \$8 million of interest capitalized during construction for the three and nine months ended September 30, 2021 (2020 - \$3 million and \$10 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings for the period after adjusting for:

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

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

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

2021					
2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings (loss)	73	3	(1)	-	75
	70	4	(1)	-	73
Transition of managed IT services	(3)	(3)	-	-	(6)
	-	-	-	-	-
Rate-regulated activities	(5)	(3)	-	-	(8)
	-	4	-	-	4
IT Common Matters decision	(2)	(1)	-	-	(3)
	(2)	(1)	-	-	(3)
Dividends on equity preferred shares of the Company	1	2	-	-	3
	1	2	-	-	3
Earnings (loss) for the period	64	(2)	(1)	-	61
	69	9	(1)	-	77

The reconciliation of adjusted earnings and earnings for the nine months ended September 30 is shown below.

2021					
2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings (loss)	231	131	(3)	-	359
	226	134	(5)	-	355
Transition of managed IT services	(12)	(14)	-	-	(26)
	-	-	-	-	-
Rate-regulated activities	(39)	(38)	1	-	(76)
	(38)	2	-	-	(36)
IT Common Matters decision	(6)	(4)	-	-	(10)
	(6)	(4)	-	-	(10)
Dividends on equity preferred shares of the Company	4	4	-	-	8
	4	4	-	-	8
Other	-	-	-	-	-
	(3)	(5)	-	-	(8)
Earnings (loss) for the period	178	79	(2)	-	255
	183	131	(5)	-	309

Transition of managed IT services

In 2020, the Company's parent, Canadian Utilities Limited, signed a Master Services Agreement (MSA) with IBM Canada Ltd. (IBM) to provide managed information technology (IT) services. These services were previously provided by Wipro Ltd. (Wipro) under a ten-year MSA expiring in December 2024. The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and was substantially complete at September 30, 2021.

In 2020, the Company recognized an onerous contract provision of \$66 million (\$52 million after-tax), which represents management's best estimate of the costs to exit the Wipro MSA. The provision is included in provisions and other current liabilities in the consolidated balance sheets and the actual costs are expected to be finalized in 2022.

In addition, for the three and nine months ended September 30, 2021, the Company recognized transition costs of \$8 million and \$34 million (\$6 million and \$26 million after-tax), respectively. The transition costs relate to activities to transfer the managed IT services from Wipro to IBM. As these costs are not in the normal course of business, they have been excluded from Adjusted Earnings.

Rate-regulated activities

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

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

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

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
<i>Additional revenues billed in current period</i>				
Future removal and site restoration costs ⁽¹⁾	26	20	85	59
Impact of colder temperatures ⁽²⁾	-	-	-	7
<i>Revenues to be billed in future periods</i>				
Deferred income taxes ⁽³⁾	(17)	(15)	(71)	(71)
Distribution rate relief ⁽⁴⁾	(20)	-	(95)	-
Impact of warmer temperatures ⁽²⁾	(4)	(2)	(5)	-
<i>Settlement of regulatory decisions and other items</i> ⁽⁵⁾	7	1	10	(31)
	(8)	4	(76)	(36)

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

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

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

(4) During the three and nine months ended September 30, 2021, Electricity Distribution and Natural Gas Distribution recorded a decrease in earnings of \$20 million and \$95 million related to interim rate relief for customers as applied for by the Company and approved by the AUC to hold current distribution base rates in place. These amounts will be recovered from customers in 2022 and 2023.

(5) In the first nine months of 2020, Electricity Distribution, recorded a decrease in earnings of \$20 million related to the payment of transmission costs. Substantially all of these costs were recovered from customers in the fourth quarter of 2020.

IT Common Matters decision

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings in the three and nine months ended September 30, 2021 was \$3 million and \$10 million (2020 - \$3 million and \$10 million).

Other

In the second quarter of 2020, the Company recorded other costs of \$8 million, after tax, that were not in the normal course of business. These costs related to the continued transformation and realignment of certain functions in the Company.

4. REVENUES

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

2021			
2020	Electricity ⁽¹⁾	Natural Gas ⁽¹⁾	Total
Revenue Streams			
Rendering of Services			
Distribution services	149	158	307
	132	145	277
Transmission services	160	76	236
	173	75	248
Customer contributions	8	5	13
	8	5	13
Franchise fees	7	41	48
	8	35	43
Total rendering of services	324	280	604
	321	260	581
Other	17	2	19
	13	7	20
Total	341	282	623
	334	267	601

(1) For the three months ended September 30, 2021, Electricity and Natural Gas segments include \$83 million of unbilled revenue (2020 - \$84 million).

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

2021			
2020	Electricity ⁽¹⁾	Natural Gas ⁽¹⁾	Total
Revenue Streams			
Rendering of Services			
Distribution services	401	582	983
	382	584	966
Transmission services	506	228	734
	519	220	739
Customer contributions	25	15	40
	23	16	39
Franchise fees	24	163	187
	23	156	179
Total rendering of services	956	988	1,944
	947	976	1,923
Other	44	9	53
	46	22	68
Total	1,000	997	1,997
	993	998	1,991

(1) For the nine months ended September 30, 2021, Electricity and Natural Gas segments include \$83 million of unbilled revenue (2020 - \$84 million). At September 30, 2021, \$83 million of the unbilled trade accounts receivables are included in trade accounts receivable and contract assets (December 31, 2020 - \$117 million).

5. PROPERTY, PLANT AND EQUIPMENT

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

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in- Progress	Other	Total
Cost					
December 31, 2020	19,500	603	338	669	21,110
Additions	–	5	703	–	708
Transfers	622	7	(645)	16	–
Retirements and disposals	(45)	(4)	–	(15)	(64)
September 30, 2021	20,077	611	396	670	21,754
Accumulated depreciation					
December 31, 2020	4,823	154	–	318	5,295
Depreciation	332	18	–	30	380
Retirements and disposals	(45)	(4)	–	(15)	(64)
September 30, 2021	5,110	168	–	333	5,611
Net book value					
December 31, 2020	14,677	449	338	351	15,815
September 30, 2021	14,967	443	396	337	16,143

The additions to property, plant and equipment included \$8 million of interest capitalized during construction for the nine months ended September 30, 2021 (2020 - \$10 million).

PIONEER NATURAL GAS PIPELINE ACQUISITION

Utilities Segment

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

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

Consistent with the geographic areas defined in the Integration Agreement, ATCO Gas and Pipelines Ltd. will transfer to Nova Gas Transmission Ltd. (NGTL) the 30 km segment of pipeline that is located in the NGTL footprint for approximately \$65 million. The transfer to NGTL is subject to approval from the Canada Energy Regulator and is expected to close in the first quarter of 2022.

The transaction to acquire the Pioneer Pipeline closed during the second quarter of 2021. As a result, \$198 million was recorded in additions to property, plant and equipment in the consolidated balance sheets and the consolidated statements of cash flows. The costs incurred for the segment of the pipeline that will be sold to NGTL, amounting to \$63 million, were recorded as assets held-for-sale in prepaid expenses and other current assets in the consolidated balance sheets, and were included in other investing activities in the consolidated statements of cash flows. Pipeline integration costs of \$4 million are expected to be incurred in the remainder of 2021.

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

6. LONG-TERM DEBT

On September 5, 2021, the Company issued \$460 million of 3.174 per cent debentures maturing on September 5, 2051.

On September 28, 2020, the Company issued \$150 million of 2.609 per cent debentures maturing on September 28, 2050.

7. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

REDEMPTION OF EQUITY PREFERRED SHARES TO PARENT COMPANY

On August 27, 2021, the Company redeemed all of the issued 4.60 per cent Series V Preferred Shares for \$79 million plus accrued dividends.

DIVIDENDS

Cash dividends declared and paid per share are as follows:

<i>(dollars per share)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Equity preferred shares				
Cumulative Redeemable Preferred Shares				
4.60% Series 1	0.2875	0.2875	0.8625	0.8625
2.29% Series 4 ⁽¹⁾	0.1433	0.1402	0.4236	0.4206
Equity preferred shares to parent company				
Perpetual Cumulative Second Preferred Shares				
4.60% Series V ⁽²⁾	0.1706	0.2875	0.7456	0.8625

(1) Effective June 1, 2021, the annual dividend rate for the Series 4 Preferred Shares was reset at 2.29 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.

(2) Dividends paid for the 4.60% Series V Preferred Shares were \$0.1706 for the period July 4, 2021 to August 26, 2021, when the Series V Preferred Shares were redeemed.

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

On October 14, 2021 the Company declared fourth quarter eligible dividends of \$0.2875 per Series 1 Preferred Share and \$0.14325 per Series 4 Preferred Share.

8. CLASS A AND CLASS B SHARES

DIVIDENDS

The Company declared and paid cash dividends of \$15.26 and \$45.65 per Class A non-voting share and Class B common share during the three and nine months ended September 30, 2021 (2020 - \$14.76 for the three and nine months ended September 30, 2020). The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On October 14, 2021, the Company declared a fourth quarter dividend of \$18.67 per Class A and Class B share.

9. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Depreciation and amortization	132	130	399	385
Income tax expense	19	24	78	98
Contributions by customers (refunds to customers) for extensions to plant	20	(1)	117	45
Amortization of customer contributions	(13)	(13)	(40)	(39)
Net finance costs	91	91	272	274
Income taxes recovered (paid)	2	(6)	(20)	(8)
Other	(2)	(1)	(3)	(21)
	249	224	803	734

CASH POSITION

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

	2021	2020
Cash	32	232
Short-term advances to parent company	65	96
Cash and cash equivalents	97	328
Bank indebtedness	(4)	-
Short-term advances from parent company	(65)	-
	28	328

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

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

Recurring Measurements	September 30, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Long-term debt	8,561	9,701	8,101	10,435