

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*(Tabular amounts and amounts in footnotes to tables are in millions of Canadian dollars unless otherwise indicated.)*

This Management's Discussion and Analysis ("MD&A") dated March 3, 2021 is provided to enable readers to assess the results of operations, liquidity and capital resources of TriSummit Utilities Inc. (formerly AltaGas Canada Inc.) ("TSU" or the "Company") as at and for the year ended December 31, 2020. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements as at and for the year ended December 31, 2020 (the "Consolidated Financial Statements").

The Company's presentation currency is in Canadian dollars. In this MD&A, references to "\$" are to Canadian dollars unless otherwise indicated. The Consolidated Financial Statements and comparative information have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("U.S. GAAP") as codified by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Throughout this MD&A, reference to GAAP refers to U.S. GAAP. Any reference to per Common Share (as defined herein) measures are presented on a basic basis, unless otherwise indicated.

This MD&A refers to certain terms commonly used in the rate-regulated utility industry, such as "rate-regulated", "rate base" and "return on equity". The term "rate base" and "return on equity" are key performance indicators but are not considered to be non-GAAP measures. Rate base is an amount that a utility is required to calculate for regulatory purposes, and generally refers to net book value of the utility's assets for regulatory purposes. Return on equity or "ROE" is a percentage that is set or approved by a utility's regulator and represents the rate of return that a regulator allows the utility to earn on the equity component of the utility's rate base. The Company refers to the rate base and return on equity of its utility businesses because it believes that such terms assist in understanding the Company's business and are commonly used by investors to help evaluate the performance of rate-regulated utilities. For a discussion of these terms and other terms commonly used in the rate-regulated utility industry, please see the "*Business of the Company - Utilities Business*" section in the annual information form of TSU dated March 3, 2021 (the "Annual Information Form").

Abbreviations, acronyms, and capitalized terms used in this MD&A that are not otherwise defined herein are used consistently with the definitions in the Annual Information Form.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "should", "believe", "plan", "would", "could", "focus", "forecast", "opportunity" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: TSU's vision, mission and strategy; the implementation and success of TSU's strategy as a whole and each of its business segments; expected success of financing plans and strategies, including maintenance of TSU's credit rating; the expected safety and reliability of TSU's operations; the expected good working relationships with stakeholders and governments; sources and terms of natural gas supply; the expected impacts on TSU's business of applicable environmental regulations and requirements; expectations regarding the impact of the COVID-19 pandemic (as defined herein) on TSU's business, including the amortization of COVID-19 revenue deferral accounts; expectations regarding the PNG Reactivation Project (as defined herein) and the Salvus to Galloway Project (as defined herein); expected refund of the interim-approved revenue requirements associated with the Etzikom Lateral Project (as defined herein) within the 2021 annual rates; the generic cost of capital proceedings announced by the BCUC (as defined herein); the PBR (as defined herein) and cost of service reviews initiated by the AUC (as defined herein); expectations regarding planned expenditures and related investments and capital program from 2021 to 2025 and the expected capital spend in 2021, including the sources of financing for TSU's capital expenditures; expectations regarding HGL's RDA (as defined herein); expected fluctuations in the Company's working capital and the expected funding of the Company's capital program; the Company's objective for managing capital and its effects on rate base and return to investors; the payment of dividends to the Company's shareholder; and expected impact of adopting ASUs (as defined herein) in the future on the Company's consolidated financial statements.

The forward-looking information and statements contained in this MD&A reflect several material factors, expectations and assumptions of the Company including, without limitation: expected commodity supply, demand and pricing; that the Company

will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; regulatory approvals and policies; funding operating and capital costs; project completion dates; capacity expectations; that there will be no material defaults by the counterparties to agreements with the Company and such agreements will not be terminated prior to their scheduled expiry; and the Company will continue to have access to wind and water resources in amounts consistent with the amounts expected by the Company. The Company believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information and statements, including, without limitation: changes in the demand for or supply of the Company's services; unanticipated operating results; changes in regulatory matters; limited, unfavourable or a lack of access to capital markets; increased costs; the impact of competitors; attracting and retaining skilled personnel and certain other risks (including, without limitation, those risks identified elsewhere in this MD&A); and the other factors discussed under the heading "*Risk Factors*" in the Annual Information Form and set out in the Company's other continuous disclosure documents.

The Company believes the forward-looking statements in this MD&A are reasonable. However, such statements are not a guarantee that any of the actions, events or results of the forward-looking statements will occur, or if any of them do occur, their timing or what impact they will have on the Company's results of operations or financial condition. Because of these uncertainties, investors should not put undue reliance on any forward-looking statements.

The forward-looking statements included in this MD&A are expressly qualified by this cautionary statement and are made as of the date of this MD&A. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by Canadian securities laws.

Additional information relating to the Company, including the Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **THE COMPANY**

On March 31, 2020, the Public Sector Pension Investment Board ("PSP Investments") and the Alberta Teachers' Retirement Fund Board ("ATRF") completed the acquisition of all of the outstanding common shares of TSU (the "Common Shares") by TriSummit Cycle Inc. (formerly PSPIB Cycle Investments Inc.) (the "Purchaser"), a company in which PSP Investments indirectly holds a majority economic interest and ATRF indirectly holds a minority economic interest, with an all-cash transaction pursuant to a plan of arrangement (the "Arrangement"). The Purchaser acquired each Common Share for \$33.50 in cash and the Company is now a wholly-owned subsidiary of the Purchaser. In connection with the completion of the Arrangement, the Company changed its name to "TriSummit Utilities Inc.". TSU remains incorporated under the *Canada Business Corporations Act*, with its headquarters located in Calgary, Alberta. While TSU does not have its securities listed on any stock exchange, it continues to be a reporting issuer under applicable Canadian securities laws because its public debt remains outstanding.

The Company owns rate-regulated natural gas distribution and transmission utility businesses through its operating subsidiaries Apex Utilities Inc. (formerly AltaGas Utilities Inc.) ("AUI") in Alberta, Pacific Northern Gas Ltd. ("PNG") and Pacific Northern Gas (N.E.) Ltd. ("PNG(N.E.)") in British Columbia and Heritage Gas Limited ("HGL") in Nova Scotia. The Company also owns the Bear Mountain Wind Park and an approximately 10 percent indirect interest in the Northwest Hydro Facilities.

## **VISION, MISSION AND STRATEGY**

The Company's vision is to be a premier growing North American utility and renewable energy company. The Company's mission is to be a clean and reliable energy provider of choice in each of the jurisdictions in which it operates through being a leader in safety, cost effectiveness and customer service. To achieve its vision and mission, the Company's strategy is to make disciplined,

smart expansion choices that are consistent with a transitioning energy industry while safeguarding its existing businesses and driving organic growth within them.

## 2020 FINANCIAL HIGHLIGHTS

(Normalized EBITDA, normalized funds from operations, normalized net income, net debt, and net debt to total capitalization ratio are non-GAAP financial measures. Please see the "Non-GAAP Financial Measures" section of this MD&A.)

- Net income after taxes was \$22.8 million (\$0.76 per Common Share) compared to \$42.1 million (\$1.40 per Common Share) in 2019.
- Normalized net income was \$43.3 million (\$1.44 per Common Share), compared to \$45.3 million (\$1.51 per Common Share) in 2019.
- Operating income was \$50.7 million, compared to \$73.4 million in 2019.
- Normalized EBITDA was \$116.2 million, an increase of 2 percent compared to \$113.5 million in 2019.
- Normalized funds from operations were \$82.5 million (\$2.75 per Common Share), an increase of 3 percent compared to \$79.9 million (\$2.66 per Common Share) in 2019.
- Net debt was \$717.0 million as at December 31, 2020, compared to \$669.5 million as at December 31, 2019.
- Net debt to total capitalization ratio was 54.0 percent as at December 31, 2020, compared to 51.9 percent as at December 31, 2019.
- Rate base as at December 31, 2020 was \$990 million inclusive of construction work in progress, compared to \$941 million as at December 31, 2019.
- On March 31, 2020, PSP Investments and ATRF, indirectly through the Purchaser, completed the acquisition of all of the issued and outstanding Common Shares.
- On April 7, 2020, TSU completed the issuance of \$100 million of medium-term notes ("MTNs") with a coupon rate of 3.13 percent and a maturity date of April 7, 2027.
- On April 21, 2020, HGL received final approval from the Nova Scotia Utility and Review Board ("NSUARB") to revise the Customer Retention Program ("CRP") deferral mechanism and to extend the program to the end of 2023 as requested, effective January 1, 2020.
- On May 28, 2020, the Alberta Utilities Commission ("AUC") approved AUI's application for deferral accounts for the purposes of administering deferred payments under the *Utility Payment Deferral Program Act (Alberta)* for residential, farm and small commercial customers who are experiencing financial hardship as a direct result of the COVID-19 pandemic.
- On June 10, 2020, the British Columbia Utilities Commission ("BCUC") approved PNG's application to offer a bill payment deferral program between April 17, 2020 and June 30, 2020 to residential and small commercial customers who have experienced a loss of income or revenue as a result of the COVID-19 pandemic. The BCUC also approved the establishment of deferral accounts to capture unplanned costs and bad debt expense as a result of the impact of the COVID-19 pandemic.
- In the third quarter of 2020, PNG completed the execution of firm transportation service agreements with respect to the PNG Reactivation Project.
- On October 2, 2020, PNG submitted an application to the BCUC for the Salvus to Galloway Project.
- On October 16, 2020, the AUC issued a decision indicating that the Etzikom Lateral Project did not satisfy the Type 1 Capital Tracker (as defined herein) criteria.
- In October 2020, the BCUC approved PNG's 2020 to 2021 revenue requirements applications which included the determination of final customer delivery rates.
- On November 4, 2020, the board of directors approved a quarterly dividend increase to \$0.275 per Common Share, payable on or about December 18, 2020.
- On December 17, 2020, the AUC issued a decision approving AUI's 2021 annual performance based regulation rate adjustment filing.

## OVERVIEW OF THE BUSINESS

TSU has three reporting segments:

- Utilities, which owns and operates utility assets that deliver natural gas to end-users in Alberta, British Columbia and Nova Scotia. TSU also owns a one-third equity interest in the utility that delivers natural gas to end-users in Inuvik, Northwest Territories. In aggregate, the Utilities have approximately \$990 million of rate base as at December 31, 2020 inclusive of construction work in progress and serve approximately 132,000 customers across Canada.
- Renewable Energy, which includes the Bear Mountain Wind Park and an approximately 10 percent indirect interest in the Northwest Hydro Facilities.
- Corporate, which primarily includes the cost of providing shared services, financing and access to capital, and general corporate support.

### Utilities segment



#### Alberta

AUI owns and operates a regulated natural gas distribution utility in Alberta. As at December 31, 2020, AUI served approximately 81,500 customers. AUI's customers are primarily residential and small commercial consumers located in smaller population centers or rural areas of Alberta. AUI's rate base as at December 31, 2020 was approximately \$422 million. On August 2, 2018, the AUC approved an ROE of 8.5 percent on 39 percent equity for 2018, 2019 and 2020. On October 13, 2020, the AUC approved an ROE of 8.5 percent on 39 percent equity for 2021.

AUI operates in a stable regulatory environment under a Performance-Based Regulation ("PBR") framework, first introduced for the initial 2013 to 2017 PBR plan term. Effective January 1, 2018, the AUC approved a second PBR plan term from 2018 to 2022 ("PBR 2"). Under the PBR 2 plan, rates continue to be set under a revenue cap per customer formula with annual

adjustments for customer growth and inflation less expected productivity improvements. As revenues are generally decoupled from costs, a utility is incentivized to achieve cost efficiencies during the PBR plan term.

In addition, the PBR 2 plan continues to allow for recovery of costs determined to flow through directly to customers, recovery of items related to material exogenous events, and re-opener threshold provisions that allow an application to be re-opened in order to address specific problems with the design or operation of the PBR plan. Incremental capital funding is largely determined formulaically based on historical capital additions with an additional mechanism available for cost recovery of specific capital projects that are extraordinary, not previously included in rate base, and required by a third party ("Type 1 Capital Tracker"). As a result of its formulaic design, the PBR framework provides a level of regulatory certainty throughout the PBR period, allowing the utility to manage its costs and to allocate and plan capital spending accordingly.

In 2019, AUI completed the construction of a 17 km pipeline in southeast Alberta serving approximately 1,715 customers (the "Etzikom Lateral Project"). On October 16, 2020, the AUC issued a decision denying Type 1 Capital Tracker treatment of the Etzikom Lateral Project and directed AUI to refund the associated interim-approved revenue requirements in its 2021 annual PBR rates. As a result of this decision, the Company recorded a net income reduction of approximately \$0.3 million in the fourth quarter of 2020.

On December 20, 2019, the AUC issued a decision regarding AUI's 2018 depreciation study application (the "AUI Depreciation Study"). The applied for service life depreciation rate changes were approved as filed while the AUC approved lesser increases than applied for regarding net salvage rates. The change in depreciation rates was effective January 1, 2018 and the cumulative impact has been reflected in the Company's fourth quarter 2019 results.

On December 17, 2020, the AUC issued a decision approving AUI's 2021 annual performance based regulation rate adjustment filing.

On March 1, 2021, the AUC released Bulletin 2021-04 announcing the initiation of two streamlined related processes. The first is a review and assessment of legacy PBR performance, which will include gathering input and feedback to evaluate the successes and shortcomings of the PBR framework in Alberta. The AUC has also determined to proceed with a one-year cost-of-service review based on forecast costs to establish 2023 rates. The rates approved under the 2023 cost-of-service initiative may also be used to establish going-in rates for a subsequent PBR term, depending on the outcome of the PBR evaluation initiative.

#### *British Columbia*

PNG operates a transmission and distribution system in the west central portion of northern British Columbia (the "Western System") and PNG(N.E.), PNG's wholly-owned subsidiary, owns and operates a distribution utility in northeastern British Columbia (the "Northeast System"). As at December 31, 2020, PNG served approximately 42,400 customers. Approximately 87 percent of PNG's total customers are residential. PNG's rate base as at December 31, 2020 was approximately \$250 million.

PNG operates under a cost of service regulatory framework affording PNG an opportunity to recover all prudently incurred costs and earn a rate of return on its deemed common equity. The allowed ROE and deemed capital structure is approved by the BCUC and is based off the low risk benchmark utility. The allowed ROE for the Western System and the Northeast System (Tumbler Ridge) is 9.50 percent and for the Northeast System (Fort St. John/Dawson Creek) is 9.25 percent. The approved common equity ratio for the Western System and the Northeast System (Tumbler Ridge) is 46.5 percent and for the Northeast System (Fort St. John/Dawson Creek) is 41 percent. In January 2021, the BCUC issued notice that it would be initiating a generic cost of capital proceeding in the spring of 2021 to address the appropriate common equity component and return on equity for the utilities it regulates, and that the determinations from this proceeding would apply to rate setting effective January 1, 2022.

In October 2020, the BCUC approved PNG's 2020 to 2021 revenue requirements applications, which included the determination of final customer delivery rates for 2020 and 2021. In its decisions, the BCUC approved final delivery rate increases in each of 2020 and 2021 of approximately 2 percent for customers in the Western System, of approximately 10 percent for customers in the Northeast System (Fort St. John/Dawson Creek) service areas, and of approximately 1.5 percent for customers in the Northeast System (Tumbler Ridge) service area.

On February 28, 2020, the BCUC issued Order G-3-20 granting approval of PNG's application of a large volume industrial transportation rate required as part of its proposed process for allocation of reactivated capacity on its existing Western System pipeline. The allocation of reactivated capacity is for natural gas deliveries from Station 4a on the Enbridge Westcoast Energy Inc. southern mainline near Summit Lake, British Columbia to three termination points: Terrace, Kitimat, and Prince Rupert, British Columbia. In the third quarter of 2020, PNG completed the execution of firm transportation service agreements ("TSAs") with counterparties for a total capacity of 65 million standard cubic feet per day over a period of approximately 20 years. PNG has commenced preparation of an application to the BCUC to seek approval for costs related to system reactivation and recommissioning work necessary to return the system back to full utilization (the "PNG Reactivation Project") and anticipates filing this application in the first quarter of 2021. The counterparties to the TSAs have provided letters of credit for part of the obligations under the TSAs, with the remaining credit obligations to be provided if the application is approved. The estimated capital cost for the PNG Reactivation Project has increased to approximately \$75 to \$80 million due to more detailed engineering and refinement in cost estimates.

On October 2, 2020, PNG submitted an application to the BCUC seeking approval for a project to repair and refurbish part of its Western System pipeline, specifically the 8" transmission line from Terrace, British Columbia to Prince Rupert, British Columbia (the "Salvus to Galloway Project"), which is required to address aging infrastructure and ensure long-term reliable supply. Project work will be conducted within the existing PNG pipeline corridor and nearby permitted temporary workspace. The Salvus to Galloway Project is expected to cost approximately \$80 million, the majority of which is expected to be incurred over a three-year period, between 2021 and 2023. The Salvus to Galloway Project is integral to the PNG Reactivation Project. The total capital expenditures estimated for both projects is expected to be approximately \$155 to \$160 million.

#### *Nova Scotia*

HGL has the exclusive rights to distribute natural gas through its distribution system to all or part of seven counties in Nova Scotia, including the Halifax Regional Municipality. As at December 31, 2020, HGL's customer base is approximately 8,100 customers. HGL has a mix of residential, small commercial, large commercial and industrial customers. HGL's rate base as at December 31, 2020 was approximately \$318 million.

HGL operates under a cost of service regulatory framework where prudently incurred investments earn a rate of return on its deemed capital structure which is approved by the NSUARB. For 2020 and 2019, HGL's approved regulated ROE is 11 percent with an approved deemed capital structure of 45 percent equity.

In September 2016, the NSUARB approved HGL's CRP application allowing HGL to reduce the base energy charges for customers who consume between 500 and 4,999 GJs/year and the flexibility to increase the base energy charges up to \$8.69/GJ (the previously approved rates), deferral of depreciation expense and a deferral of an additional approximately 25 percent of maintenance and administrative expenses while the program is in place. The deferred amounts under the CRP earn a return of 4 percent. HGL exercised the flexibility provided for in the CRP to increase the rates that were previously reduced as part of the CRP three times between November 2017 and November 2018, which has partially restored the rates to previously approved cost of service levels. The CRP was scheduled to expire on December 31, 2020. On November 4, 2019, HGL filed an application with the NSUARB requesting to extend its CRP to the end of 2023. In addition to retaining pricing flexibility to adjust rates for certain commercial customers, HGL also requested to change the CRP deferral mechanism to defer amounts equivalent to the price discount provided to certain small commercial customers, rather than suspending depreciation and deferring a portion of operating, maintenance and administrative expenses. On April 21, 2020, HGL received final approval from the NSUARB to revise the CRP deferral mechanism and to extend the program to the end of 2023 as requested. The decision was effective January 1, 2020.

For its regulated operations, HGL has approval from the NSUARB to use a Revenue Deficiency Account ("RDA") until it is fully recovered, subject to a maximum of \$50 million, which may be increased subject to approval by the NSUARB. The RDA is revenue required to afford HGL the opportunity to earn the rates of return on its rate base, as approved by the NSUARB. In periods where the actual revenue billed is less than the revenue required to earn the approved rates of return, the RDA asset will accumulate. As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and the RDA is drawn down.

### *Inuvik Gas Ltd. & Ikhil Joint Venture*

The Company has an approximate one-third interest in Inuvik Gas and the Ikhil Joint Venture natural gas reserves, which have historically supplied Inuvik Gas with natural gas for the Town of Inuvik. With the Ikhil Joint Venture natural gas reserves approaching the end of their life, a propane air mixture system producing synthetic natural gas was implemented as the main source of energy supply for Inuvik Gas with the Ikhil Joint Venture serving as a back-up. In December 2016, Inuvik Gas notified the Town of Inuvik of its intention to terminate the gas distribution franchise agreement effective December 2018. The franchise agreement was terminated on December 8, 2018. Through an in-person meeting in December 2018, Inuvik Gas agreed to continue to provide service to its customers in accordance with the previous franchise agreement and the Northwest Territories Public Utilities Board approved terms and conditions of service. The Company and its joint venture partners will continue to own and operate the Ikhil Joint Venture.

### **Renewable Energy Segment**



### *Bear Mountain Wind Park*

The Bear Mountain Wind Park near Dawson Creek, British Columbia is a 102 MW generating wind facility consisting of 34 turbines, a substation and transmission and collector lines, which is connected to the BC Hydro transmission grid. All of the power from the Bear Mountain Wind Park is sold to BC Hydro under a 25-year electricity purchase agreement (“EPA”) expiring in 2034 with an escalation factor of 50 percent of Canadian CPI.

### *Northwest Hydro Facilities*

The Northwest Hydro Facilities, in which the Company has a 10 percent indirect equity interest, are located in Tahltan First Nation territory approximately 1,000 kilometers northwest of Vancouver, British Columbia, and are comprised of the Forrest Kerr Hydroelectric Facility (“Forrest Kerr”), the McLymont Creek Hydroelectric Facility (“McLymont Creek”), the Volcano Creek Hydroelectric Facility (“Volcano Creek”) and a substation and transmission line and related facilities. The facilities have total installed capacity of 303 MW. These facilities are each underpinned by 60-year EPAs, fully indexed to BC CPI. The EPA for

Forrest Kerr and Volcano Creek expire in 2074, and the EPA for McLymont Creek expires in 2075. Impact benefit agreements are in place with the Tahltan First Nation for all three facilities, to facilitate a cooperative and mutually beneficial long-term relationship.

On May 21, 2020, Coast Mountain Hydro Limited Partnership (“CMHLP”) received notices from BC Hydro in relation to each of the Northwest Hydro Facilities. The notices stated that BC Hydro will not accept and purchase energy under the applicable EPAs above a specified curtailment levels beginning on May 24, 2020. The curtailment notices were subsequently lifted by BC Hydro on July 20, 2020. BC Hydro cited the current COVID-19 pandemic and the related measures taken by governmental authorities in relation to it constituting a “force majeure” event under the EPAs. CMHLP disputes BC Hydro’s position and has initiated an arbitration proceeding. The curtailment levels for the period specified translated into a realized reduction of distributions to TSU of approximately \$1.6 million, of which approximately \$0.4 million was realized in the third quarter of 2020 and approximately \$1.2 million was realized in the second quarter of 2020.

## **IMPACT OF THE COVID-19 PANDEMIC**

In response to the novel coronavirus of 2019 (“COVID-19”) pandemic, provincial governments across Canada have enacted emergency measures to combat the spread of the virus. During the COVID-19 pandemic, TSU and its utilities are focusing on the health and safety of their employees and customers while continuing to provide safe and reliable services. In response to the COVID-19 pandemic, several temporary customer relief initiatives were provided to customers at the outset of the pandemic. While the Company is continuing to work with its customers to establish payment arrangements, it resumed normal collection activities in connection with overdue accounts during the third quarter of 2020. Please see further details below.

In March 2020, the Government of Alberta announced a program for Albertans who were experiencing financial hardship directly related to the COVID-19 pandemic to be able to defer payment of electricity and natural gas bills from March 18, 2020 until June 18, 2020 without any late fees or added interest payments. In addition, no Albertans could be disconnected from these services or see their services reduced during this period due to non-payment. Albertans who enrolled in the bill deferral program must repay the deferred amount by June 18, 2021. On May 28, 2020, the AUC approved AUI’s application to establish deferral accounts for the purposes of administering deferred payments under the *Utility Payment Deferral Program Act (Alberta)*. Based on guidelines from the AUC, AUI resumed collection activities at the beginning of July 2020. As at December 31, 2020, AUI has deferred approximately \$0.8 million under these deferral accounts.

On March 23, 2020, the NSUARB approved HGL’s request to offer discretionary temporary measures to customers impacted by the COVID-19 pandemic. These temporary measures include offering flexible payment plans for its customers, waiving late fees and interest, waiving fixed monthly customer charges for any customers that may temporarily lock their service, temporarily halting the Company’s disconnection practices and temporarily suspending collections on overdue accounts. Beginning in early July 2020, HGL resumed collection activities in connection with overdue accounts. HGL resumed charging late fees and interest in October 2020.

On June 10, 2020, the BCUC approved PNG’s application to offer a bill payment deferral program between April 17, 2020 and June 30, 2020 to residential and small commercial customers that have experienced a loss of income or revenue as a result of the COVID-19 pandemic. The BCUC also granted approval for PNG to establish deferral accounts to capture unplanned costs incurred and cost savings as a result of the COVID-19 pandemic and to capture bad debts that may be incurred specifically as a result of the impact of COVID-19. PNG will apply for the amortization of the COVID-19 deferral accounts in future revenue requirement applications. As at December 31, 2020, \$1.0 million of net cost savings have been identified and deferred as regulatory liabilities. During the outset of the COVID-19 pandemic, PNG also temporarily halted disconnection practices for overdue accounts related to COVID-19 disruption. PNG resumed collection efforts in connection with overdue accounts in late June 2020.

While the COVID-19 pandemic did not significantly impact the carrying value of accounts receivable and the liquidity position of the Company as at December 31, 2020, given the unprecedented and changing developments surrounding the COVID-19 pandemic, it is not possible to reliably estimate the impact of the COVID-19 pandemic on the financial results and condition of the Company in future periods. As at December 31, 2020, the Company has approximately \$230.5 million of cash balances and



available credit facilities. The Company is continuing to monitor the potential impact of the pandemic on ongoing operations and associated financial implications.

## CAPITAL PROGRAM GUIDANCE

Over the 2021 to 2025 time period, TSU expects capital spending of up to \$560 million at its Utilities. The expected capital program includes the PNG Reactivation Project, the Salvus to Galloway Project as well as investments in system betterment projects to maintain the safety and reliability of TSU's utility infrastructure, new business opportunities and technology improvements. In 2021, TSU expects capital spending to be in the range of \$90 to \$100 million.

## SELECTED FINANCIAL INFORMATION

The following tables summarize key financial results:

(\$ millions)	Three Months Ended		Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
Normalized EBITDA <sup>(1)</sup>	<b>34.8</b>	40.1	<b>116.2</b>	113.5
Operating income	<b>22.6</b>	26.4	<b>50.7</b>	73.4
Net income after taxes	<b>15.5</b>	16.1	<b>22.8</b>	42.1
Normalized net income <sup>(1)</sup>	<b>17.4</b>	18.6	<b>43.3</b>	45.3
Total assets	<b>1,649.7</b>	1,582.3	<b>1,649.7</b>	1,582.3
Total long-term liabilities	<b>951.6</b>	852.4	<b>951.6</b>	852.4
Net additions to property, plant and equipment	<b>25.8</b>	27.4	<b>67.8</b>	69.7
Dividends declared	<b>8.3</b>	7.8	<b>31.7</b>	29.9
Cash from operations	<b>21.3</b>	17.2	<b>62.8</b>	76.6
Normalized funds from operations <sup>(1)</sup>	<b>29.8</b>	34.7	<b>82.5</b>	79.9

(\$ per Common Share, except Common Shares outstanding)	Three Months Ended		Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
Net income after taxes - basic	<b>0.52</b>	0.54	<b>0.76</b>	1.40
Net income after taxes - diluted	<b>0.52</b>	0.53	<b>0.76</b>	1.40
Normalized net income - basic <sup>(1)</sup>	<b>0.58</b>	0.62	<b>1.44</b>	1.51
Dividends declared	<b>0.2750</b>	0.2600	<b>1.0550</b>	0.9950
Cash from operations	<b>0.71</b>	0.57	<b>2.09</b>	2.55
Normalized funds from operations <sup>(1)</sup>	<b>0.99</b>	1.16	<b>2.75</b>	2.66
Weighted average number of Common Shares outstanding - basic (millions)	<b>30.0</b>	30.0	<b>30.0</b>	30.0

(1) Non-GAAP financial measure; see discussion in the "Non-GAAP Financial Measures" section of this MD&A.

The following table summarizes TSU's consolidated results:

(\$ millions)	Three Months Ended		Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
Revenue	<b>99.8</b>	101.2	<b>322.8</b>	326.3
Cost of sales	<b>(37.6)</b>	(38.2)	<b>(112.0)</b>	(125.8)
Operating and administrative expense	<b>(30.5)</b>	(28.3)	<b>(127.6)</b>	(100.4)
Accretion expense	<b>(0.1)</b>	—	<b>(0.2)</b>	(0.1)
Depreciation and amortization expense	<b>(9.1)</b>	(9.6)	<b>(36.8)</b>	(31.7)
Income from equity investments	<b>1.9</b>	2.1	<b>5.9</b>	7.4
Ikhil Joint Venture asset provision	<b>(1.4)</b>	—	<b>(1.4)</b>	—
Unrealized loss on foreign exchange contracts	<b>(0.7)</b>	(0.7)	<b>(0.7)</b>	(2.2)
Other income (loss)	<b>0.3</b>	—	<b>0.8</b>	(0.1)
Foreign exchange loss	—	(0.1)	<b>(0.1)</b>	—
Operating income	<b>22.6</b>	26.4	<b>50.7</b>	73.4
Interest expense	<b>(6.7)</b>	(6.9)	<b>(28.0)</b>	(26.9)
Income tax recovery (expense)	<b>(0.4)</b>	(3.4)	<b>0.1</b>	(4.4)
Net income after taxes	<b>15.5</b>	16.1	<b>22.8</b>	42.1

### Three Months Ended December 31

Normalized EBITDA for the three months ended December 31, 2020 was \$34.8 million, a decrease of \$5.3 million relative to the same period in 2019 primarily due to higher operating and administrative expenses, warmer weather compared to the same period in 2019 in Nova Scotia and Alberta, and the absence of the cumulative impact from the AUI Depreciation Study recorded in the fourth quarter of 2019, partially offset by rate base growth at the Utilities.

Operating income for the three months ended December 31, 2020 was \$22.6 million, a decrease of \$3.8 million relative to the same period in 2019 primarily due to the same factors as the decrease in normalized EBITDA as discussed above and a provision recorded on the Ikhil Joint Venture asset, partially offset by lower depreciation and amortization expense and lower transaction costs incurred in respect of the Arrangement. During the fourth quarter of 2020, the Company recorded a provision on the Ikhil Joint Venture asset related to the asset retirement costs capitalized as a result of a change in estimates to the asset retirement obligation.

Operating and administrative expense for the three months ended December 31, 2020 was \$30.5 million, an increase of \$2.2 million from the same period in 2019 mainly due to the higher business development costs and the approval of the revised HGL CRP program in April 2020 resulting in less deferred operating and administrative expenses partially offset by lower transaction costs incurred in respect of the Arrangement.

Depreciation and amortization expense for the three months ended December 31, 2020 was \$9.1 million, a decrease of \$0.5 million from the same period in 2019 mainly due to the approval of the AUI Depreciation Study in December 2019, resulting in higher depreciation expense in the fourth quarter of 2019.

Interest expense for the three months ended December 31, 2020 was \$6.7 million compared to \$6.9 million in the same period in 2019. The decrease of \$0.2 million was mainly due to lower average interest rates, partially offset by a higher average debt balance outstanding.

Income tax expense for the three months ended December 31, 2020 was \$0.4 million, compared to \$3.4 million in the same period in 2019 primarily due to lower taxable income.

Normalized net income for the three months ended December 31, 2020 was \$17.4 million, a decrease of \$1.2 million relative to the same period in 2019 mainly due to the same factors as the decrease in normalized EBITDA discussed above, partially offset by lower depreciation and amortization expense, lower income tax expense, and lower interest expense.

Net income after taxes for the three months ended December 31, 2020 was \$15.5 million, a decrease of \$0.6 million compared to the same period in 2019 mainly due to the same factors as the decrease in operating income discussed above, partially offset by lower income tax expense and lower interest expense.

Normalized funds from operations for the three months ended December 31, 2020 was \$29.8 million, a decrease of \$4.9 million relative to the same period in 2019 primarily due to higher operating and administrative expenses, warmer weather in Nova Scotia and Alberta, and lower distributions from the Company's investment in the Northwest Hydro Facilities, partially offset by rate base growth at the Utilities, lower interest expense, and lower current income tax expense.

#### **Year Ended December 31**

Normalized EBITDA for the year ended December 31, 2020 was \$116.2 million, an increase of \$2.7 million relative to the same period in 2019, primarily due to higher approved rates and rate base growth at the Utilities and higher generation at the Bear Mountain Wind Park, partially offset by warmer weather compared to the same period in 2019 in Nova Scotia and Alberta, lower normalized EBITDA from the Northwest Hydro Facilities and higher operating and administrative expense.

Operating income for the year ended December 31, 2020 was \$50.7 million, a decrease of \$22.7 million relative to the same period in 2019, primarily due to pre-tax transaction costs of approximately \$22.7 million in respect of the Arrangement, higher depreciation and amortization expense, and a provision recorded on the Ikhil Joint Venture asset, partially offset by the same factors as the increase in normalized EBITDA discussed above and lower unrealized loss on foreign exchange contracts.

Operating and administrative expense for the year ended December 31, 2020 was \$127.6 million, an increase of \$27.2 million from the same period in 2019, mainly due to pre-tax transaction costs of approximately \$22.7 million in respect of the Arrangement, higher business development costs, and the approval of the revised HGL CRP program in April 2020 resulting in less deferred operating and administrative expenses.

Depreciation and amortization expense for the year ended December 31, 2020 was \$36.8 million, an increase of \$5.1 million from the same period in 2019, mainly due to the approval of the revised HGL CRP program in April 2020 resulting in less deferred depreciation, and higher PP&E balance.

Interest expense for the year ended December 31, 2020 was \$28.0 million, compared to \$26.9 million in the same period in 2019. The increase of \$1.1 million was mainly due to a higher average debt balance outstanding, partially offset by lower average interest rates.

Income tax recovery for the year ended December 31, 2020 was \$0.1 million, compared to income tax expense of \$4.4 million in the same period in 2019. The decrease in income tax expense was primarily due to lower taxable income as a result of the transaction costs incurred in respect of the Arrangement, partially offset by the absence of a one-time deferred income tax recovery related to the reduction in the Alberta statutory tax rate in June 2019 and accelerated capital cost allowance deductions taken in the second quarter of 2019.

Normalized net income for the year ended December 31, 2020 was \$43.3 million, a decrease of \$2.0 million relative to the same period in 2019, mainly due to higher depreciation and amortization expense and higher interest expense, partially offset by the same factors as the increase in normalized EBITDA discussed above and lower tax expense.

Net income after taxes for the year ended December 31, 2020 was \$22.8 million, a decrease of \$19.3 million compared to the same period in 2019. The decrease was due to the same factors as the decrease in operating income discussed above and higher interest expense, partially offset by lower income tax expense.

Normalized funds from operations for the year ended December 31, 2020 was \$82.5 million, an increase of \$2.6 million relative to the same period in 2019, primarily due to higher generation at the Bear Mountain Wind Park, and rate base growth and higher approved rates at the Utilities, partially offset by warmer weather compared to the same period in 2019 in Nova Scotia and Alberta as well as higher interest expense.

Please refer to the “*Liquidity and Capital Resources - Liquidity*” section of this MD&A for a discussion of changes in cash from operations.

## RESULTS BY REPORTING SEGMENT

### Normalized EBITDA by Reporting Segment<sup>(1)</sup>

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Utilities	\$ 31.7	\$ 34.3	\$ 98.2	\$ 95.1
Renewable Energy	7.0	6.8	23.0	21.1
Corporate	(3.9)	(1.0)	(5.0)	(2.7)
	\$ 34.8	\$ 40.1	\$ 116.2	\$ 113.5

(1) Non-GAAP financial measure; see discussion in the “*Non-GAAP Financial Measures*” section of this MD&A.

### Operating Income (Loss) by Reporting Segment

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Utilities	\$ 22.4	\$ 25.8	\$ 66.5	\$ 68.3
Renewable Energy	4.2	4.0	12.0	10.1
Corporate	(4.0)	(3.4)	(27.8)	(5.0)
	\$ 22.6	\$ 26.4	\$ 50.7	\$ 73.4

## UTILITIES SEGMENT REVIEW

### Financial results

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Revenue	\$ 94.5	\$ 96.0	\$ 304.5	\$ 311.5
Cost of sales	(37.5)	(38.2)	(111.7)	(125.6)
Operating and administrative expense	(25.5)	(23.5)	(95.3)	(90.7)
Other income (loss)	0.2	—	0.7	(0.1)
Normalized EBITDA <sup>(1)</sup>	\$ 31.7	\$ 34.3	\$ 98.2	\$ 95.1
Unrealized loss on foreign exchange contracts	(0.7)	(0.7)	(0.7)	(2.2)
Depreciation and amortization expense	(7.2)	(7.8)	(29.4)	(24.5)
Foreign exchange loss	—	—	(0.1)	—
Accretion expense	—	—	(0.1)	(0.1)
Ikhil Joint Venture asset provision	(1.4)	—	(1.4)	—
Operating income	\$ 22.4	\$ 25.8	\$ 66.5	\$ 68.3

(1) Non-GAAP financial measure; see discussion in the “*Non-GAAP Financial Measures*” section of this MD&A.

## Operating statistics

	Three Months Ended		Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
Natural gas deliveries - end-use (PJ)	10.6	11.2	33.3	35.0
Natural gas deliveries - transportation (PJ)	1.6	1.5	5.5	5.8
Degree day variance from normal - AUJ (%) <sup>(1)</sup>	(2.7)	1.3	3.3	6.6
Degree day variance from normal - HGL (%) <sup>(1)</sup>	(11.0)	2.8	(5.7)	3.5

(1) A degree day for AUJ and HGL is the cumulative extent to which the daily mean temperature falls below 15 degrees Celsius at AUJ and 18 degrees Celsius at HGL. Normal degree days are based on a 20-year rolling average. Positive variances from normal lead to increased delivery volumes from normal expectations. Degree day variances do not materially affect the results of PNG, as the BCUC has approved a rate stabilization mechanism for its residential and small commercial customers.

## Regulatory Metrics

Year ended December 31	2020	2019
Weighted - average approved ROE (%) <sup>(1)</sup>	9.2	9.3
Rate base (\$ millions) <sup>(2)(3)</sup>	990	941

(1) ROE is a percentage that is set or approved by a utility's regulator and represents the rate of return that a regulator allows the utility to earn on the equity component of the utility's rate base.

(2) Rate base is indicative of the earning potential of each utility over time. Approved revenue requirements for each utility is typically based on the rate base as approved by the regulator for the respective rate application, but may differ from the rate base indicated above.

(3) Inclusive of construction work in progress.

### Three Months Ended December 31

Revenue decreased by \$1.5 million for the three months ended December 31, 2020 compared to the same period in 2019 primarily due to warmer weather compared to the same period in 2019 in Nova Scotia and Alberta, the absence of the cumulative impact from the AUJ Depreciation Study recorded in the fourth quarter of 2019, and flow-through of lower gas supply costs to customers, partially offset by rate base growth.

Normalized EBITDA decreased by \$2.6 million for the three months ended December 31, 2020 compared to the same period in 2019 primarily due to higher operating and administrative expenses mainly due to higher contractor and consultant costs, warmer weather compared to the same period in 2019 in Nova Scotia and Alberta, and the absence of the cumulative impact from the AUJ Depreciation Study recorded in the fourth quarter of 2019, partially offset by rate base growth.

Operating income decreased by \$3.4 million for the three months ended December 31, 2020 compared to the same period in 2019, primarily due to the same factors as the decrease in normalized EBITDA discussed above and a provision recorded on the Ikhil Joint Venture asset, partially offset by lower depreciation and amortization expense.

### Year Ended December 31

Revenue decreased by \$7.0 million for the year ended December 31, 2020 compared to the same period in 2019, primarily due to warmer weather compared to the same period in 2019 in Nova Scotia and Alberta and flow-through of lower gas supply costs to customers, partially offset by higher approved rates and rate base growth.

Normalized EBITDA increased by \$3.1 million for the year ended December 31, 2020 compared to the same period in 2019, primarily due to higher approved rates and rate base growth, partially offset by higher operating and administrative expenses mainly due to higher contractor and consultant costs, and warmer weather compared to the same period in 2019 in Nova Scotia and Alberta.

Operating income decreased by \$1.8 million for the year ended December 31, 2020 compared to the same period in 2019, primarily due to higher depreciation and amortization expense as a result of the approval of the revised HGL CRP program in April 2020 resulting in less deferred depreciation and a provision recorded on the Ikhil Joint Venture asset, partially offset by the same factors as the increase in normalized EBITDA discussed above and lower unrealized loss on foreign exchange contracts.

## RENEWABLE ENERGY SEGMENT REVIEW

### Financial results

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Revenue	\$ 5.3	\$ 5.2	\$ 18.3	\$ 14.8
Cost of sales	(0.1)	—	(0.3)	(0.2)
Operating and administrative expense	(1.1)	(1.5)	(4.6)	(4.7)
Normalized EBITDA from equity investment	2.8	3.1	9.5	11.2
Other income	0.1	—	0.1	—
Normalized EBITDA <sup>(1)</sup>	\$ 7.0	\$ 6.8	\$ 23.0	\$ 21.1
Depreciation and amortization expense	(1.9)	(1.8)	(7.3)	(7.2)
Accretion expense	—	—	(0.1)	—
Accretion and depreciation and amortization expense from equity investment	(0.9)	(1.0)	(3.6)	(3.8)
Operating income	\$ 4.2	\$ 4.0	\$ 12.0	\$ 10.1

(1) Non-GAAP financial measure; see discussion in the "Non-GAAP Financial Measures" section of this MD&A.

### Operating statistics

	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Bear Mountain Wind Park power sold (GWh)	52.8	51.1	189.8	141.9
Northwest Hydro Facilities power sold (GWh) <sup>(1)(2)</sup>	23.7	23.2	97.5	120.5

(1) Representing 10 percent of the total power sold by the Northwest Hydro Facilities.

(2) Inclusive of 1.5 GWh of deemed energy for the year ended December 31, 2020 related to BC Hydro's curtailment but excluding the impact of curtailment notices issued for the period from May 24, 2020 through to July 20, 2020 (year ended December 31, 2019 – 2.7 GWh).

#### Three Months Ended December 31

Revenue increased by \$0.1 million for the three months ended December 31, 2020 compared to the same period in 2019 primarily due to higher generation at the Bear Mountain Wind Park.

Normalized EBITDA increased by \$0.2 million for the three months ended December 31, 2020 compared to the same period in 2019 primarily due to higher generation at the Bear Mountain Wind Park and lower operating and administrative expense, partially offset by the lower normalized EBITDA from the Northwest Hydro Facilities.

Operating income increased by \$0.2 million for the three months ended December 31, 2020 compared to the same period in 2019 due to the same factors as the increase in normalized EBITDA discussed above.

During the three months ended December 31, 2020, TSU recorded \$1.9 million of equity income from its investment in the Northwest Hydro Facilities, compared to \$2.1 million in the same period in 2019. The decrease was mainly due to timing of generation.

#### Year Ended December 31

Revenue increased by \$3.5 million for the year ended December 31, 2020 compared to the same period in 2019, primarily due to higher generation at the Bear Mountain Wind Park, partially offset by the expiration of the federal ecoEnergy incentive at the Bear Mountain Wind Park.

Normalized EBITDA increased by \$1.9 million for the year ended December 31, 2020 compared to the same period in 2019, primarily due to higher generation at the Bear Mountain Wind Park, partially offset by lower normalized EBITDA from the Northwest Hydro Facilities and the expiration of the federal ecoEnergy incentive at the Bear Mountain Wind Park.

Operating income increased by \$1.9 million for the year ended December 31, 2020 compared to the same period in 2019, due to the same factors as the increase in normalized EBITDA discussed above.

During the year ended December 31, 2020, TSU recorded \$5.9 million of equity income from its investment in the Northwest Hydro Facilities, compared to \$7.4 million of equity income from its investment in the same period in 2019. The decrease was mainly due to the curtailment notices received from BC Hydro (see further discussion under the “*Overview of the Business – Renewable Energy Segment – Northwest Hydro Facilities*” section of this MD&A) and higher operating expenses.

## CORPORATE SEGMENT REVIEW

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Operating and administrative expense	\$ (3.9)	\$ (1.0)	\$ (5.0)	\$ (2.7)
Normalized EBITDA <sup>(1)</sup>	\$ (3.9)	\$ (1.0)	\$ (5.0)	\$ (2.7)
Depreciation and amortization	—	—	(0.1)	—
Foreign exchange gain	—	(0.1)	—	—
Transaction costs	(0.1)	(2.3)	(22.7)	(2.3)
Operating loss	\$ (4.0)	\$ (3.4)	\$ (27.8)	\$ (5.0)

(1) Non-GAAP financial measure; see discussion in the “*Non-GAAP Financial Measures*” section of this MD&A.

For the three and twelve months ended December 31, 2020, normalized EBITDA was a loss of \$3.9 and \$5.0 million, respectively (2019 - \$1.0 million and \$2.7 million, respectively). For the three and twelve months ended December 31, 2020, expenses incurred by the Corporate segment were associated with providing corporate shared services and business development. During the first quarter of 2020, the Corporate segment also incurred expenses related to employee incentive programs that were tied to TSU’s share price performance prior to the completion of the Arrangement.

For the three and twelve months ended December 31, 2020, corporate costs of \$1.6 million and \$6.9 million, respectively, were allocated to TSU’s operating segments, compared to \$1.9 million and \$7.2 million, respectively, for the same periods in 2019.

For the three and twelve months ended December 31, 2020, operating loss was \$4.0 million and \$27.8 million, respectively (2019 - \$3.4 million and \$5.0 million, respectively). The Company incurred pre-tax transaction costs of approximately \$0.1 million and \$22.7 million during the three and twelve months ended December 31, 2020 in respect of the Arrangement.

## SUMMARY OF SELECTED QUARTERLY RESULTS<sup>(1)</sup>

The following table sets forth unaudited quarterly information for each of the eight quarters from the quarter ended March 31, 2019 to the quarter ended December 31, 2020.

<i>(\$ millions, except per Common Share amounts)</i>	<b>Q4-20</b>	Q3-20	Q2-20	Q1-20
Revenue	<b>99.8</b>	48.6	61.3	113.0
Normalized net income <sup>(2)</sup>	<b>17.4</b>	1.0	1.8	22.9
Net income after taxes	<b>15.5</b>	0.5	0.3	6.5
Net income after taxes per Common Share - basic (\$)	<b>0.52</b>	0.02	0.01	0.22
Net income after taxes per Common Share - diluted (\$)	<b>0.52</b>	0.02	0.01	0.22
Dividends declared per Common Share (\$) <sup>(3)</sup>	<b>0.2750</b>	0.2600	0.2600	0.2600

<i>(\$ millions, except per Common Share amounts)</i>	Q4-19	Q3-19	Q2-19	Q1-19
Revenue	101.2	45.2	61.3	118.6
Normalized net income <sup>(2)</sup>	18.6	2.4	3.8	20.4
Net income after taxes	16.1	2.8	3.9	19.2
Net income after taxes per Common Share - basic (\$)	0.54	0.09	0.13	0.64
Net income after taxes per Common Share - diluted (\$)	0.53	0.09	0.13	0.64
Dividends declared per Common Share (\$) <sup>(3)</sup>	0.2600	0.2600	0.2375	0.2375

(1) Amounts may not add due to rounding.

(2) Non-GAAP financial measure; see discussion in the "Non-GAAP Financial Measures" section of this MD&A.

(3) TSU declares and pays a quarterly dividend on its Common Shares. Dividends are at the discretion of the board of directors and dividend levels are reviewed periodically, giving consideration to the ongoing sustainable cash flow from operating activities, maintenance and growth capital expenditures, and debt repayment requirements of TSU.

Quarter-over-quarter financial results are impacted by seasonality, weather, planned and unplanned outages, and timing and recognition of regulatory decisions.

Revenue for the Utilities segment is generally the highest in the first and fourth quarters of any given year as the majority of natural gas demand occurs during the winter heating season, which typically extends from November to March.

Net income after taxes is affected by non-cash items such as deferred income tax, depreciation and amortization expense, accretion expense, impairment, gains and losses on foreign exchange contracts, and gains or losses on the sale of assets. For these reasons, net income may not necessarily reflect the same trends as revenue. In addition, the equity investment in the Northwest Hydro Facilities is impacted by seasonal precipitation, which creates periods of high river flow, typically during May through October of any given year. Net income after taxes during the periods noted was impacted by:

- an income tax recovery recognized in the second quarter of 2019 as a result of the one-time deferred income tax recovery related to the reduction in the Alberta statutory tax rate in June 2019 and the decrease in current income tax expense due to accelerated tax deductions related to PP&E; and
- after-tax transaction costs of approximately \$1.8 million incurred in the fourth quarter of 2019, approximately \$18.0 million incurred in the first quarter of 2020 and approximately \$0.4 million incurred in the second quarter of 2020, all in respect of the Arrangement.



## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

The Company's primary sources of liquidity are cash flow from operations and debt additions. The Company's cash requirements include funding for capital expenditures and working capital, servicing and repaying long-term debt, and dividend payments. The Company's sources and uses of cash are further discussed below:

	Year Ended	
	December 31	
(\$ millions)	2020	2019
Cash from operations	62.8	76.6
Cash used in investing activities	(77.8)	(70.4)
Cash from (used in) financing activities	21.9	(7.8)
Increase (decrease) in cash and cash equivalents	6.9	(1.6)

### Cash from operations

During the year ended December 31, 2020, cash from operations decreased by \$13.8 million as compared to the same period in 2019 primarily due to lower cash earnings, partially offset by a favourable variance from changes in operating assets and liabilities. The favourable variance in changes in operating assets and liabilities were mainly due to timing of supplier payments.

### Investing activities

During the year ended December 31, 2020, cash used in investing activities increased by \$7.4 million as compared to the same period in 2019 primarily due to higher capital expenditures.

See also the "Capital Expenditures" section of this MD&A.

### Financing activities

During the year ended December 31, 2020, cash from financing activities increased by \$29.7 million as compared to the same period in 2019 primarily due to higher net borrowings, partially offset by an increase in dividends paid.

### Working Capital

	December 31,	December 31,
(\$ millions except current ratio)	2020	2019
Current assets	\$ 82.5	\$ 71.7
Current liabilities	88.5	109.3
Working capital (deficiency)	\$ (6.0)	\$ (37.6)
Working capital ratio	0.93	0.66

The variation in the working capital ratio was primarily due to an increase in cash held and a decrease in short-term and current portion of long-term debt. TSU's working capital will fluctuate in the normal course of business, and the working capital deficiency will be funded using cash flow from operations and available credit facilities as required.

### Capital Resources

The Company's objective for managing capital is to maintain its investment grade credit rating, ensure adequate liquidity, maximize the profitability of its existing assets and grow its business through prudent capital investments which ultimately add to the Utilities' rate base and enhance returns to its shareholder. The Company's capital resources are comprised of short-term and long-term debt (including the current portion).

The use of debt or equity funding is based on TSU's capital structure, which is determined by considering the norms and risks associated with operations and cash flow stability and sustainability.

<i>(\$ millions, except where noted)</i>	<b>December 31, 2020</b>	December 31, 2019
Short-term debt	<b>\$ 4.1</b>	12.1
Current portion of long-term debt <sup>(1)</sup>	<b>1.0</b>	14.8
Long-term debt <sup>(2)</sup>	<b>719.0</b>	642.8
Total debt	<b>724.1</b>	669.7
Less: cash and cash equivalents	<b>(7.1)</b>	(0.2)
Net debt <sup>(3)</sup>	<b>\$ 717.0</b>	669.5
Shareholder's equity	<b>609.6</b>	620.6
Total capitalization	<b>\$ 1,326.6</b>	1,290.1
<b>Net debt-to-total capitalization<sup>(3)</sup> (%)</b>	<b>54.0</b>	51.9

(1) Net of debt issuance costs of \$nil as of December 31, 2020 (December 31, 2019 - \$0.2 million).

(2) Net of debt issuance costs of \$3.4 million as of December 31, 2020 (December 31, 2019 - \$3.3 million).

(3) Non-GAAP financial measure; see discussion in the "Non-GAAP Financial Measures" section of this MD&A.

As at December 31, 2020, TSU's total debt primarily consisted of outstanding MTNs of \$650 million (December 31, 2019 - \$550 million), PNG debentures of \$24.0 million (December 31, 2019 - \$25.0 million), unsecured syndicated term loan of \$nil (December 31, 2019 - \$14.0 million), and \$53.1 million drawn under other bank credit facilities (December 31, 2019 - \$83.5 million). In addition, TSU had \$8.5 million of letters of credit issued (December 31, 2019 - \$7.7 million).

On April 7, 2020, TSU completed the issuance of \$100 million of MTNs with a coupon rate of 3.13 percent and a maturity date of April 7, 2027. The net proceeds were used (i) as to approximately \$96.0 million, to repay amounts outstanding under the Company's revolving credit facility, and (ii) as to the remainder, for general corporate purposes.

On August 27, 2020, TSU repaid the remaining balance of \$14 million on its unsecured syndicated term loan and the unsecured syndicated term loan was cancelled.

TSU's earnings interest coverage for the rolling 12 months ended December 31, 2020 was 1.8 times (12 months ended December 31, 2019 – 2.7 times).

## Credit Facilities

The Company funds its long and short term borrowing requirements with credit facilities as follows:

(\$ millions)	Borrowing capacity	Drawn at December 31, 2020	Drawn at December 31, 2019
Syndicated revolving credit facility <sup>(1)</sup>	\$ 200.0	\$ 24.0	\$ 46.4
Syndicated term loan <sup>(2)</sup>	—	—	14.0
Operating credit facility <sup>(3)</sup>	35.0	3.8	4.7
PNG committed credit facility <sup>(4)</sup>	25.0	25.0	25.0
PNG operating credit facility <sup>(5)</sup>	25.0	8.8	15.1
	<b>\$ 285.0</b>	<b>\$ 61.6</b>	<b>\$ 105.2</b>

- (1) On October 25, 2018, the Company entered into definitive credit agreements establishing the \$200 million unsecured syndicated revolving credit facility that matures October 25, 2022. On February 13, 2020, the Company extended the maturity date to December 31, 2023. Borrowing options under this facility include Canadian prime rate-based loans, U.S. base rate loans, bankers' acceptances and LIBOR loans. Borrowings against this credit facility bear fees and interest at rates relevant to the nature of the draw made and the Company's credit rating. There are no mandatory repayments prior to maturity under this facility. The facility has covenants customary for these types of facilities, which must be met at each quarter end. The Company has complied with all financial covenants each quarter since the establishment of this facility.
- (2) On October 25, 2018, the Company entered into definitive credit agreements establishing the \$250 million unsecured syndicated term loan that was set to mature on October 25, 2020. On August 27, 2020, TSU repaid the remaining balance of \$14 million on the term loan and this facility was cancelled. Borrowing options under this term loan included Canadian prime rate-based loans, U.S. base rate loans, bankers' acceptances and LIBOR loans. Borrowings against this term loan used to bear fees and interest at rates relevant to the nature of the draw made and the Company's credit rating. Optional repayments were allowed without penalty and there was no mandatory repayment prior to maturity. This term loan had covenants customary for these types of facilities, which had to be met at each quarter end. The Company complied with all financial covenants prior to the cancellation of this facility.
- (3) On October 25, 2018, the Company entered into a definitive credit agreement with a Canadian chartered bank establishing the \$35 million revolving operating credit facility. Borrowings under this facility are due on demand. Borrowing options under this facility include overdraft, letters of credit, Canadian prime rate-based loans, U.S. base rate loans, bankers' acceptances and LIBOR loans. Borrowings on this credit facility bear fees and interest at rates relevant to the nature of the draw made and the Company's credit rating. This facility is used to fund overdraft amounts and to issue letters of credit. As at December 31, 2020, a total of \$3.8 million (December 31, 2019 - \$3.8 million) in letters of credit were issued and are outstanding. This facility has covenants customary for these types of facilities, which must be met at each quarter end. The Company has complied with all financial covenants each quarter since the establishment of this facility.
- (4) PNG has \$55 million of revolving credit facilities maturing on May 4, 2023, \$30 million of which is with the Company and \$25 million of which is with a Canadian chartered bank. The \$25 million external facility will be used to support PNG's capital spending program. Borrowings under the external facility are available by way of bankers' acceptances bearing interest at the three-month bankers' acceptance rate plus a spread and subject to stand-by fees. Interest and stand-by costs are due monthly. Optional repayments are allowed without penalty and there is no mandatory repayment prior to maturity. The facilities have covenants customary for these types of facilities, which must be met at each quarter end. PNG has been in compliance with all financial covenants each quarter since the establishment of these facilities.
- (5) On May 4, 2018, PNG completed the financing of the \$25 million PNG operating credit facility with a Canadian chartered bank. This facility matures on May 4, 2021. The operating line is available for working capital purposes through cash draws in the form of prime-rate advances or bankers' acceptances and the issuance of letters of credit and is collateralized by a charge on PNG's accounts receivable and inventories. As at December 31, 2020, \$4.7 million (December 31, 2019 - \$3.9 million) of letters of credit were issued and outstanding under this facility.

The following table summarizes the Company's primary financial covenants as defined by the credit facility agreements:

Ratios	Debt covenant requirements	As at December 31, 2020
Bank debt-to-capitalization <sup>(1)(2)</sup>	not greater than 65 percent	53.8%
Bank EBITDA-to-interest expense <sup>(1)(2)</sup>	not less than 2.5x	4.0x

(1) Calculated in accordance with the Company's credit facility agreements, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

(2) Estimated, subject to final adjustments.

## Base Shelf Prospectus

On November 16, 2020, the Company filed a \$1.0 billion base shelf prospectus. The purpose of the base shelf prospectus is to facilitate timely offerings of certain types of future public debt and/or equity issuances during the 25-month period that the base shelf prospectus remains effective. As at December 31, 2020, \$1.0 billion was available under the base shelf prospectus.

## CREDIT RATINGS

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities.

On December 2, 2020, DBRS Morningstar (“DBRS”) confirmed TSU’s Issuer Rating and Unsecured Medium Term Notes rating of BBB(high) with a Stable trend.

Long-term obligations which are rated in the “BBB” category by DBRS are in the fourth highest category and are considered to be of adequate credit quality, with acceptable capacity for the payment of financial obligations. Entities in the “BBB” category may be considered to be vulnerable to future events, but the capacity for the payment of financial obligations is considered acceptable. DBRS uses “high” or “low” designations to indicate the relative standing of the securities being rated within a particular rating category.

The credit ratings assigned by DBRS are not recommendations to purchase, hold or sell the securities in as much as such ratings do not comment as to market price or suitability for a particular investor. There can be no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by DBRS at any time in the future, if, in its judgment, circumstances so warrant. The credit ratings on a security may not reflect the potential impact of all risks related to the value of the security.

TSU provides an annual fee to DBRS for credit rating services. TSU has paid DBRS its respective fees in connection with the provision of the above ratings. In addition to the aforementioned fees, TSU has made payments in respect of certain other services provided to the Company by DBRS.

## CAPITAL EXPENDITURES

(\$ millions)	Three Months Ended December 31, 2020				Three Months Ended December 31, 2019			
	Renewable Energy	Utilities	Corporate	Total	Renewable Energy	Utilities	Corporate	Total
Capital expenditures:								
PP&E <sup>(1)</sup>	\$ —	\$ 25.9	\$ 0.1	\$ 26.0	\$ —	\$ 27.4	\$ 0.1	\$ 27.5
Intangible assets	—	3.4	—	3.4	—	4.4	0.1	4.5
Capital expenditures	—	29.3	0.1	29.4	—	31.8	0.2	32.0
Disposals:								
PP&E	—	(0.2)	—	(0.2)	—	(0.1)	—	(0.1)
Net capital expenditures	\$ —	\$ 29.1	\$ 0.1	\$ 29.2	\$ —	\$ 31.7	\$ 0.2	\$ 31.9

(1) Effective January 1, 2020, HGL suspended the deferral of a portion of operating, maintenance and administrative expenses in regulatory assets as per the revised CRP deferral mechanism approved by the NSUARB on April 21, 2020. Prior to the changes to the CRP deferral mechanism, \$0.7 million of operating, maintenance and administrative expenses were deferred in regulatory assets during the three months ended December 31, 2019 which were excluded from the table above.

(\$ millions)	Year Ended December 31, 2020				Year Ended December 31, 2019			
	Renewable Energy	Utilities	Corporate	Total	Renewable Energy	Utilities	Corporate	Total
Capital expenditures:								
PP&E <sup>(1)</sup>	\$ 0.2	\$ 68.0	\$ 0.1	\$ 68.3	\$ —	\$ 69.6	\$ 0.3	\$ 69.9
Intangible assets	—	10.9	—	10.9	—	6.8	0.1	6.9
Capital expenditures	0.2	78.9	0.1	79.2	—	76.4	0.4	76.8
Disposals:								
PP&E	—	(0.5)	—	(0.5)	—	(0.2)	—	(0.2)
Net capital expenditures	\$ 0.2	\$ 78.4	\$ 0.1	\$ 78.7	\$ —	\$ 76.2	\$ 0.4	\$ 76.6

(1) Effective January 1, 2020, HGL suspended the deferral of a portion of operating, maintenance and administrative expenses in regulatory assets as per the revised CRP deferral mechanism approved by the NSUARB on April 21, 2020. Prior to the changes to the CRP deferral mechanism, \$2.5 million of operating, maintenance and administrative expenses were deferred in regulatory assets during the year ended December 31, 2019 were excluded from the table above.

Capital expenditures for the three and twelve months ended December 31, 2020 were \$29.4 million and \$79.2 million, respectively, the majority of which relates to system betterment, replacement of transmission and distribution lines, and new

business installations. Inclusive in the capital expenditures during the three and twelve months ended December 31, 2020 were also software development costs of approximately \$3.4 million and \$10.9 million, respectively.

## **CONTINGENCIES**

The Company is subject to various legal claims and actions arising in the normal course of business. While the final outcome of such legal claims and actions cannot be predicted with certainty, the Company does not believe that the resolution of such claims and actions will have a material impact on the Company's results of operations.

## **RISK MANAGEMENT**

TSU is exposed to various market risks in the normal course of operations that could impact earnings and cash flows. The Company enters into physical commodity contracts and foreign exchange derivative contracts to manage exposure to fluctuations in commodity prices for its customers. The physical commodity contracts are not recorded on the balance sheet at fair value because they meet the normal purchase and normal sale exemption and are recognized in the consolidated income statement when the contracts are settled. The board of directors provides oversight of the Company's risk management activities.

### **Risks Associated with Financial Instruments**

The Company is exposed to various financial risks in the normal course of operations such as market risks resulting from currency exchange rates and interest rates as well as credit risk and liquidity risk.

#### **Foreign Exchange Risk**

The vast majority of HGL's natural gas supply costs are denominated in U.S. dollars. Although all natural gas procurement costs, including any realized foreign exchange gains or losses, are passed through to its customers, the Company has entered into foreign exchange forward contracts to manage the risk of fluctuations in gas costs for customers as a result of changes in foreign exchange rates. In addition, the Company has entered into foreign exchange forward contracts to manage the foreign exchange risk from certain commitments denominated in U.S. dollars. As at December 31, 2020, the Company had outstanding foreign exchange forward contracts for US\$20.1 million at an average rate of \$1.35 Canadian per U.S. dollar. As at December 31, 2019, the Company had outstanding foreign exchange forward contracts for US\$31.5 million at an average rate of \$1.32 Canadian per U.S. dollar.

#### **Interest Rate Risk**

The Company is exposed to interest rate risk as changes in interest rates may impact future cash flows and the fair value of its financial instruments. The Company manages its interest rate risk by holding a mix of both fixed and floating interest rate debt. In addition, the Company's strategy is to optimize financing plans to maintain credit ratings to minimize interest costs. The Company proactively monitors and manages its debt maturity profile and debt covenants and maintains financial flexibility through access to multiple credit facilities.

#### **Credit Risk**

Credit risk results from the possibility that a counterparty to a financial instrument fails to fulfill its obligations in accordance with the terms of the contract. The Company's maximum credit exposure consists primarily of the carrying value of accounts receivable and the fair value of derivative financial assets. The Company's utilities business generally has a large and diversified customer base, which minimizes the concentration of credit risk. To minimize credit risk, the utilities business will request a security deposit, which is eligible for refund after an observable period of compliance with payment terms. A credit report may also be requested. For the Company's Renewable Energy segment, all power generated are sold under the EPA with BC Hydro, an investment grade counterparty. Please also refer to the "*Impact of the COVID-19 Pandemic*" section of this MD&A for discussion on the impact of COVID-19 on TSU's credit risk.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages this risk through its extensive budgeting and monitoring process to ensure it has sufficient cash and credit facilities to meet its obligations as they come due and to support business operations and the Company's capital program. The Company's objective is to maintain its investment-grade ratings to ensure it has access to debt and equity funding as required. The

Company's strategy is to maintain and comply with debt covenants to minimize financing costs. The Company's primary sources of liquidity and capital resources are cash generated from operations, borrowings under credit facilities, and long-term debt. The Company actively monitors current and future credit metrics including the impact of any forecasted planned capital expenditures in excess of cash from operations. Please also refer to the "Impact of the COVID-19 Pandemic" section of this MD&A for discussion on the impact of COVID-19 on TSU's liquidity risk.

### Risks Associated with TSU's Operations

The following table is a summary of the Company's principal risks related to its operations that could materially affect its business, results of operations, financial condition or cash flows. Further information on the Company's risk factors can be found in the Annual Information Form. TSU manages its exposure to risks associated with operating its business using the strategies outlined in the following table:

Risks	Strategies and Organizational Capability to Mitigate Risks
<b>Regulatory and Stakeholder</b>	
<p>The Company is subject to uncertainties faced by regulated companies, such as the approval by the applicable regulators of rates that permit a reasonable opportunity to recover on a timely basis the estimated costs of providing services, including a fair return on and of rate base. A failure to obtain rates that recover the costs of providing service or provide a reasonable opportunity to earn an expected ROE and capital structure as applied for may adversely affect the business carried on by the Company and may have a material adverse effect on the Company's results of operations and financial position. The acquisition, ownership and operation of natural gas businesses and assets require numerous permits, approvals and certificates from federal, provincial and local government agencies and indigenous peoples. If there is a delay in obtaining any required regulatory approval or if the Company fails to maintain or obtain any required approval or fails to comply with any applicable law, regulation or condition of an approval, the operation of its assets and the distribution of natural gas could be prevented or become subject to additional costs, any of which could have a material adverse effect on the Company's results of operations and financial position. The market for renewable power is heavily influenced by federal, provincial and local government regulations and policies in respect of tariffs, market structure and penalties. The Company's inability to predict, influence or respond appropriately to changes in law or regulatory frameworks could adversely impact the Company's results of operations.</p>	<ul style="list-style-type: none"> <li>• Skilled regulatory department retained</li> <li>• Regulatory personnel monitor new or changed laws or regulations</li> <li>• Proactive regulatory and stakeholder relations group</li> <li>• Maintain constructive and transparent relationships with stakeholders and regulators</li> <li>• Use of expert third parties when needed</li> </ul>
<b>Weather impact on the utilities</b>	
<p>The natural gas distribution business is highly seasonal, with the majority of natural gas demand occurring during the winter heating season. The applicable regulators set rates which assume normal weather conditions.</p>	<ul style="list-style-type: none"> <li>• Anticipated volumes are determined based on the 20-year rolling average for weather at AUI and HGL</li> <li>• PNG has a weather normalization account for residential and small commercial customers</li> </ul>
<b>Demand for natural gas</b>	
<p>Natural gas demand is impacted by a number of factors, including the weather, economic conditions, the number of customers, the customer mix, the availability, price, and environmental considerations related to natural gas and alternative forms of energy and energy efficiency measures taken by customers. The commodity cost of natural gas has traditionally been volatile. Carbon taxes impact the delivered price to customers. When prices are high, the prospects of fuel-switching and increased energy conservation pose a risk to levels of demand for natural gas, as other energy sources can become more cost-competitive.</p>	<ul style="list-style-type: none"> <li>• Regulatory mechanisms allow for recovery of cost of service</li> <li>• Rate structure and design helps reduce volatility of costs to customers</li> <li>• CRP in place at HGL to mitigate fuel switching</li> <li>• Stakeholder engagement</li> <li>• Investigate and implement where possible, renewable energy solutions for customers</li> </ul>

Risks	Strategies and Organizational Capability to Mitigate Risks
<b>Volume of power generated</b>	
<p>Financial performance of the Company's renewable energy assets is dependent upon the availability of their input resources. The strength and consistency of the wind resource at the Bear Mountain Wind Park may impact the volume of power generated. A reduced amount of wind at the location of the Bear Mountain Wind Park over an extended period may reduce the production from the facility. This could also include shifts in weather or climate patterns, seasonal precipitation, and the timing and rate of snow pack melting and runoff which may impact the water flow to the Northwest Hydro Facilities and impact the volume of power generated. In addition, a material reduction in the water flow to Northwest Hydro Facilities would limit the ability to produce and market electricity from these facilities.</p>	<ul style="list-style-type: none"> <li>• EPAs for the Bear Mountain Wind Park and Northwest Hydro Facilities are in place for all power generated to be purchased</li> <li>• Diversification of fuel source (wind and hydro)</li> <li>• Active management of maintenance schedule to ensure the facilities are available to produce when resource conditions are favourable</li> </ul>
<b>Operational</b>	
<p>The Company's natural gas distribution and renewable energy infrastructure is subject to physical risks such as fires, floods, explosions, leaks, sabotage, terrorism, natural disasters and equipment malfunction, many of which are beyond the control of the Company. Any of these hazards can interrupt operations, impact the Company's reputation, cause loss of life or personal injury, result in loss of or damage to equipment, property, information technology systems, related data and control systems, and cause environmental damage that may include polluting water, land or air. Unplanned outages or prolonged downtime for maintenance and repair typically increase operation and maintenance expenses and reduce revenues.</p>	<ul style="list-style-type: none"> <li>• Maintain standard operating practices, assess and document employee competency, and maintain formal inspection, maintenance, safety and environmental programs</li> <li>• Ongoing infrastructure replacement programs within natural gas distribution system</li> <li>• Purchase property and business interruption insurance</li> <li>• Emergency response plan communicated and in place</li> <li>• Development of modified work processes and practices for safe and reliable operations during the COVID-19 pandemic</li> </ul>
<b>Environment and safety</b>	
<p>The ownership and operation of the Company's regulated utilities and renewable power assets carries an inherent risk of liability related to worker health and safety and the environment. Compliance with health, safety and environmental laws (and any future changes) and the requirements of licences, permits and other approvals will remain material to the Company's businesses. The occurrence of any of these events or any changes, additions to or more rigorous enforcement of, health, safety and environmental laws, licences, permits or other approvals could have a significant impact on operations and/or result in additional material expenditures.</p>	<ul style="list-style-type: none"> <li>• Strong safety and environmental management systems</li> <li>• Continuous process improvement strategy employed</li> <li>• Monitor evolving environmental regulations ensuring operations meet or exceed compliance standards</li> <li>• Zero tolerance safety policies for staff and contractors and reviews of past safety practices for contractors</li> <li>• Purchase and maintain general liability and business interruption insurance</li> <li>• Pipeline and asset integrity programs are in place</li> </ul>
<b>Cybersecurity</b>	
<p>Security breaches of the Company's information technology infrastructure, including, without limitation, cyber-attacks, cyber-terrorism, malware/ransomware or other failures of the Company's information technology infrastructure could result in operational outages, delays, damage to assets, the environment or to the Company's reputation, diminished customer confidence, lost profits, lost data (including confidential information), increased regulation and other adverse outcomes, including, without limitation, material legal claims and liability or fines or penalties under applicable laws and adversely affect its business operations and financial results.</p>	<ul style="list-style-type: none"> <li>• Continuously updated perimeter and internal security</li> <li>• Ongoing cybersecurity awareness training to staff and corporate communications</li> <li>• Improvements based on third-party vulnerability and cybersecurity tests</li> <li>• Security-focused solution and system design</li> <li>• Corporate threat detection and incident response protocols</li> <li>• Cybersecurity insurance coverage</li> </ul>

Risks	Strategies and Organizational Capability to Mitigate Risks
<b>Labour relations</b>	
The ability of the Company to deliver service in a cost-effective manner is dependent on the ability of the Company to attract, develop and retain skilled workforces and the inability to do so could have a material adverse effect on the Company. The Company employs members of labour unions that have entered into collective bargaining agreements with the Company. The inability to maintain, or to renew, the collective bargaining agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes, that are not provided for in approved rates and that could have a material adverse effect on the Company's results of operations and financial position.	<ul style="list-style-type: none"> <li>• Maintain access to strong labour markets to attract qualified talent</li> <li>• Positive employee relations to retain existing talent and maintain strong relations with unions</li> <li>• Maintain succession plans for key positions</li> <li>• Maintain competitive compensation programs</li> </ul>
<b>Litigation</b>	
In the normal course of the Company's operations, it may become involved in, be named as a party to or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, relating to actual or alleged violations of law, common law damages claims, personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company, which could have a material adverse effect on the Company.	<ul style="list-style-type: none"> <li>• Proactive management of lawsuits and other claims</li> <li>• Continuous monitoring of defense and settlement costs of lawsuits and claims</li> <li>• Use of expert third parties when needed</li> <li>• Strong in-house legal department</li> </ul>

## RELATED PARTY TRANSACTIONS

In the normal course of business, the Company transacts with its joint ventures and associates. AltaGas Ltd. ("AltaGas") ceased to be associated with the Company on closing of the Arrangement on March 31, 2020.

The following transactions with TSU's joint ventures associates (including AltaGas and its affiliates prior to March 31, 2020) are measured at the exchange amount and have been recorded on the consolidated statements of income in the Consolidated Financial Statements:

	2020	Year ended December 31 2019
Revenue <sup>(1)</sup>	\$ 1.3	\$ 2.4
Unrealized loss on foreign exchange contracts with AltaGas	\$ —	\$ (0.9)
Cost of sales <sup>(2)</sup>	\$ (30.6)	\$ (100.8)
Operating and administrative expenses <sup>(3)</sup>	\$ (0.1)	\$ (1.9)

(1) In the normal course of business, the Company provided gas sales and transportation services to related parties.

(2) In the normal course of business, the Company purchased natural gas from a related party.

(3) Operating and administrative expenses include the fees paid to AltaGas for transition services and administrative costs recovered from joint ventures.

## SHARE INFORMATION

As at March 3, 2021

### Issued and outstanding

Common Shares	30,000,000
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## **ADOPTION OF NEW ACCOUNTING STANDARDS**

Effective January 1, 2020, the Company adopted the following FASB-issued Accounting Standards Updates (“ASU”):

- ASU No. 2018-13 “Fair Value Measurement – Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments in this ASU modified the disclosure requirements on fair value measurements. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements;
- ASU No. 2018-14 “Compensation – Retirement Benefits-Defined Benefit Plans – General: Disclosure Framework – Changes to the Disclosure Requirements for the Defined Benefit Plans”. The amendments in this ASU modified the disclosure requirements on defined benefit pension and other postretirement plans. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements;
- ASU 2018-17 “Consolidation – Targeted Improvements to Related Party Guidance for Variable Interest Entities (“VIE”)”. The amendments in this ASU clarified that indirect interest held through related parties under common control will be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests. Under the new guidance, fewer decision-making fees will be considered variable interests in a VIE because the other interests held will be less significant using the proportionate method rather than when considered in their entirety. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements;
- ASU 2018-18 “Collaborative Arrangements – Clarifying the Interaction between Topic 808 and Topic 606”. The amendments in this ASU clarified that certain transactions between collaborative partners should be accounted for as revenue under ASC 606 when the collaborative partner is a customer. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements; and
- ASU No. 2019-04 “Topic 815 – Derivatives and Hedges and Topic 825 – Financial Instruments.” The amendments in this ASU clarified aspects of ASU 2017-12 regarding partial-term fair value hedges and fair value basis adjustments. In addition, this ASU amended ASU 2016-01 to clarify that the measurement alternative in ASC 321-10 for equity securities without readily determinable fair value represents a nonrecurring fair value measurement under ASC 820. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

## **FUTURE CHANGES IN ACCOUNTING PRINCIPLES**

In June 2016, FASB issued ASU No. 2016-13 “Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments”. The amendments in this ASU replace the current “incurred loss” impairment methodology with an “expected loss” model for financial assets measured at amortized cost. In November 2019, FASB issued ASU No. 2019-10 “Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates” which deferred the effective date of ASU No. 2016-13 to January 1, 2023. Early adoption is permitted. The Company is currently completing its assessment of the impact of these ASUs on its consolidated financial statements.

In December 2019, FASB issued ASU No. 2019-12 “Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes”. The amendments in this ASU removes certain exceptions and provides some simplifications in accounting for income taxes. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2020, FASB issued ASU No. 2020-01 “Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323) and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815”. The amendments in this ASU provides guidance for accounting for certain equity securities when the equity method of accounting is applied or discontinued and for forward contracts and purchased options on certain securities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

## OFF-BALANCE SHEET ARRANGEMENTS

In October 2014, HGL entered into a throughput service contract with Enbridge Inc. for the use of the expansion of its Algonquin Gas Transmission and Maritimes & Northeast Pipeline systems (the “Atlantic Bridge Project”). The contract commenced on October 1, 2020 and will expire 15 years thereafter. The Company issued two guarantees with an aggregate maximum liability of US\$91.7 million, guaranteeing HGL’s payment obligations under the throughput service contract with Enbridge Inc.

The Company, through HGL, has other agreements in place with natural gas distributors and wholesale gas marketers for the purchase and transportation of natural gas. As at December 31, 2020, the Company had guarantees with an aggregate maximum liability of US\$35.0 million and \$3.3 million guaranteeing HGL’s payment under those agreements.

On October 22, 2018, the Company issued a guarantee with a maximum liability of \$0.3 million related to the land tenure, right of way for permanent access and power line access at Bear Mountain Wind Park.

## DISCLOSURE CONTROLS AND PROCEDURES (“DC&P”) AND INTERNAL CONTROL OVER FINANCIAL REPORTING (“ICFR”)

On delisting of the Common Shares from the Toronto Stock Exchange, the Company became a “Venture Issuer” under applicable Canadian securities regulations for certain purposes. As such, the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are not required to certify the design and evaluation of the Company’s DC&P and ICFR under National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings*. However, the CEO and CFO have reviewed the Consolidated Financial Statements and this MD&A. Based on their knowledge and exercise of reasonable diligence, they have concluded that these documents fairly present in all material respects the financial condition, financial performance and cash flows of the Company as at the date of and for the periods presented.

## SELECTED ANNUAL FINANCIAL INFORMATION

	<b>Year Ended December 31</b>		
<i>(\$ millions, except where noted)</i>	<b>2020</b>	2019	2018
Revenue	<b>322.8</b>	326.3	309.1
Net income after taxes	<b>22.8</b>	42.1	45.3
Net income after taxes per Common Share - Basic (\$ per Common Share)	<b>0.76</b>	1.40	1.51
Net income after taxes per Common Share - Diluted (\$ per Common Share)	<b>0.76</b>	1.40	1.51
Total assets	<b>1,649.7</b>	1,582.3	1,515.5
Total long-term financial liabilities <sup>(1)</sup>	<b>722.4</b>	645.9	641.3
Weighted average number of Common Shares outstanding (millions)	<b>30.0</b>	30.0	30.0
Dividends declared per Common Share (\$ per share)	<b>1.0550</b>	0.9950	0.1744

(1) Excludes deferred financing costs.

## NON-GAAP FINANCIAL MEASURES

This MD&A contains references to certain financial measures used by the Company that do not have a standardized meaning prescribed by U.S. GAAP and may not be comparable to similar measures presented by other entities. Readers are cautioned that these non-GAAP measures should not be construed as alternatives to other measures of financial performance calculated in accordance with U.S. GAAP. The non-GAAP measures and their reconciliation to U.S. GAAP financial measures are shown below. These non-GAAP measures provide additional information that management believes is meaningful in describing the

Company's operational performance, liquidity and capacity to fund dividends, capital expenditures, and other investing activities. The specific rationale for, and incremental information associated with, each non-GAAP measure is discussed below.

References to normalized EBITDA, normalized net income, normalized funds from operations, net debt and net debt to total capitalization throughout this MD&A have the meanings as set out in this section.

### Normalized EBITDA

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Normalized EBITDA	\$ 34.8	\$ 40.1	\$ 116.2	\$ 113.5
Add (deduct):				
Foreign exchange loss	—	(0.1)	(0.1)	—
Unrealized loss on foreign exchange contracts	(0.7)	(0.7)	(0.7)	(2.2)
Accretion expense	—	—	(0.2)	(0.1)
Depreciation and amortization expense	(9.1)	(9.6)	(36.8)	(31.7)
Accretion and depreciation and amortization expense from equity investment	(0.9)	(1.0)	(3.6)	(3.8)
Ikhil Joint Venture asset provision	(1.4)	—	(1.4)	—
Transaction costs	(0.1)	(2.3)	(22.7)	(2.3)
Operating income	\$ 22.6	\$ 26.4	\$ 50.7	\$ 73.4

Normalized EBITDA is a measure of the Company's operating profitability prior to how business activities are financed, assets are amortized, or earnings are taxed. Normalized EBITDA is calculated using operating income adjusted for depreciation and amortization expense, accretion expenses, foreign exchange gain (loss), unrealized gain (loss) on foreign exchange contracts, and other typically non-recurring items. Normalized EBITDA is frequently used by investors in the evaluation of entities within the industry as it excludes items that can vary substantially between entities depending on the accounting policies chosen, the book value of assets and the capital structure.

Normalized EBITDA as presented should not be viewed as an alternative to operating income or other measures of income calculated in accordance with U.S. GAAP as an indicator of performance.

### Normalized Net Income

(\$ millions)	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Normalized net income	\$ 17.4	\$ 18.6	\$ 43.3	\$ 45.3
Add (deduct) after-tax:				
Unrealized gain (loss) on foreign exchange contracts	(0.7)	(0.7)	(0.7)	(2.2)
Ikhil Joint Venture asset provision	(1.0)	—	(1.0)	—
Income tax recovery related to decrease in Alberta statutory tax rate	—	—	—	0.8
Transaction costs	(0.2)	(1.8)	(18.8)	(1.8)
Net income after taxes	\$ 15.5	\$ 16.1	\$ 22.8	\$ 42.1

Normalized net income represents net income after taxes adjusted for after tax impact of unrealized gain (loss) on foreign exchange contracts and other typically non-recurring items. This measure is presented in order to enhance the comparability of results, as it reflects the underlying performance of the Company.

Normalized net income as presented should not be viewed as an alternative to net income after taxes or other measures of income calculated in accordance with U.S. GAAP as an indicator of performance.

## Normalized Funds from Operations

(\$ millions)	Three Months Ended			Year Ended	
	December 31			December 31	
	2020	2019	2020	2019	
Normalized funds from operations	\$ 29.8	\$ 34.7	\$ 82.5	\$ 79.9	
Add (deduct):					
Changes in operating assets and liabilities	(8.4)	(15.2)	3.0	(1.0)	
Transaction costs	(0.1)	(2.3)	(22.7)	(2.3)	
Cash from operations	\$ 21.3	\$ 17.2	\$ 62.8	\$ 76.6	

Normalized funds from operations is used to assist management and investors in analyzing the liquidity of the Company without regard to changes in operating assets and liabilities in the period as well as other non-operating related income and expenses. Management uses this measure to understand the ability to generate funds for use in investing and financing activities.

Normalized funds from operations as presented should not be viewed as an alternative to cash from operations or other cash flow measures calculated in accordance with U.S. GAAP as an indicator of liquidity.

## Net Debt and Net Debt to Total Capitalization

Net debt and net debt to total capitalization are used by the Company to monitor its capital structure and financing requirements. It is also used as a measure of the Company's overall financial strength. Net debt is defined as short-term debt, plus current and long-term portions of long-term debt, less cash and cash equivalents. Total capitalization is defined as net debt plus shareholders' equity. Additional information regarding these non-GAAP measures can be found under the "Liquidity and Capital Resources – Capital Resources" section of this MD&A.

## DEFINITIONS

CPI means Consumer Price Index

GJ means gigajoule

GW means gigawatt

GWh means gigawatt hour

MW means megawatt

MWh means megawatt hour

PJ means petajoule; one million gigajoules

PP&E means property, plant and equipment

US\$ means United States dollar

## ABOUT TSU

TSU is a Canadian company with natural gas distribution utilities and renewable power generation assets. TSU serves approximately 132,000 customers, delivering low carbon energy, safely and reliably. For more information visit: [www.trisummit.ca](http://www.trisummit.ca).

# Independent Auditor's Report

To the Shareholders of TriSummit Utilities Inc.

## Opinion

We have audited the consolidated financial statements of TriSummit Utilities Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with United States Generally Accepted Accounting Principles (US GAAP).

## 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 are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do 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, 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.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, 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.

## 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 US GAAP, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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.

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

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants

Calgary, Alberta

March 3, 2021

## Consolidated Balance Sheets

As at (\$ millions)	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7.1	\$ 0.2
Accounts receivable, net of allowances (note 16)	64.8	64.6
Inventory (note 4)	2.2	1.4
Regulatory assets (note 7)	3.8	1.6
Prepaid expenses and other current assets	4.6	3.9
	<b>82.5</b>	<b>71.7</b>
<b>Property, plant and equipment (note 5)</b>	<b>1,028.7</b>	<b>1,003.8</b>
<b>Intangible assets (note 6)</b>	<b>34.0</b>	<b>21.9</b>
<b>Goodwill</b>	<b>119.1</b>	<b>119.1</b>
<b>Regulatory assets (note 7)</b>	<b>257.3</b>	<b>235.0</b>
<b>Other long-term assets (notes 8 and 18)</b>	<b>12.0</b>	<b>12.4</b>
<b>Investments accounted for by the equity method (note 9)</b>	<b>116.1</b>	<b>118.4</b>
	<b>\$ 1,649.7</b>	<b>\$ 1,582.3</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 16)	\$ 62.9	\$ 62.1
Short-term debt (notes 10 and 16)	4.1	12.1
Current portion of long-term debt (notes 8 and 11)	1.0	14.8
Customer deposits	10.4	10.1
Regulatory liabilities (note 7)	6.2	7.1
Foreign exchange contracts liability (note 16)	1.5	0.8
Other current liabilities (note 8)	2.4	2.3
	<b>88.5</b>	<b>109.3</b>
<b>Long-term debt (notes 8, 11 and 16)</b>	<b>719.0</b>	<b>642.8</b>
<b>Asset retirement obligations (note 12)</b>	<b>4.5</b>	<b>3.1</b>
<b>Deferred income taxes (note 15)</b>	<b>140.5</b>	<b>136.3</b>
<b>Regulatory liabilities (note 7)</b>	<b>33.4</b>	<b>26.6</b>
<b>Lease liabilities (note 8)</b>	<b>6.1</b>	<b>7.0</b>
<b>Future employee obligations (note 18)</b>	<b>48.1</b>	<b>36.6</b>
	<b>\$ 1,040.1</b>	<b>\$ 961.7</b>

<b>As at (\$ millions)</b>	<b>December 31, 2020</b>	December 31, 2019
<b>Shareholder's equity</b>		
Common shares, no par value, unlimited shares authorized; December 31, 2020 and December 31, 2019 - 30 million shares issued and outstanding (note 17)	<b>321.0</b>	321.0
Contributed surplus	<b>100.0</b>	100.5
Retained earnings	<b>191.3</b>	200.2
Accumulated other comprehensive loss (notes 13 and 18)	<b>(2.7)</b>	(1.1)
	<b>609.6</b>	620.6
	<b>\$ 1,649.7</b>	\$ 1,582.3

Commitments and contingencies (note 20)

Subsequent events (note 24)

See accompanying notes to the Consolidated Financial Statements.

Approved by the Board of Directors of TriSummit Utilities Inc.

(signed) "David W. Cornhill"

(signed) "William J. Demcoe"

**DAVID W. CORNHILL**

**WILLIAM J. DEMCOE**

Director

Director



## Consolidated Statements of Income

(\$ millions)	Year ended December 31	
	2020	2019
<b>REVENUE</b> (note 14)	<b>\$ 322.8</b>	<b>\$ 326.3</b>
<b>EXPENSES</b>		
Cost of sales, exclusive of items shown separately	112.0	125.8
Operating and administrative	127.6	100.4
Accretion (note 12)	0.2	0.1
Depreciation and amortization (notes 5 and 6)	36.8	31.7
	<b>276.6</b>	<b>258.0</b>
<b>Income from equity investments</b> (note 9)	<b>5.9</b>	<b>7.4</b>
<b>Ikhil Joint Venture asset provision</b> (note 5)	<b>(1.4)</b>	<b>—</b>
<b>Unrealized loss on foreign exchange contracts</b> (note 16)	<b>(0.7)</b>	<b>(2.2)</b>
<b>Other income (loss)</b>	<b>0.8</b>	<b>(0.1)</b>
<b>Foreign exchange loss</b>	<b>(0.1)</b>	<b>—</b>
<b>Operating income</b>	<b>50.7</b>	<b>73.4</b>
<b>Interest expense</b>		
Short-term debt	(0.4)	(0.5)
Long-term debt	(27.6)	(26.4)
<b>Income before income taxes</b>	<b>22.7</b>	<b>46.5</b>
<b>Income tax expense (recovery)</b> (note 15)		
Current	2.2	2.2
Deferred	(2.3)	2.2
<b>Net income after taxes</b>	<b>\$ 22.8</b>	<b>\$ 42.1</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Comprehensive Income

(\$ millions)	Year ended December 31	
	2020	2019
<b>Net income after taxes</b>	<b>\$ 22.8</b>	<b>\$ 42.1</b>
Other comprehensive income (loss) (OCI), net of taxes		
Actuarial loss on pension and post-retirement benefit plans (notes 13 and 18)	(1.7)	(0.7)
Reclassification of actuarial loss on pension and post-retirement benefit plans (notes 13 and 18)	0.1	—
<b>Other comprehensive loss, net of taxes</b>	<b>(1.6)</b>	<b>(0.7)</b>
<b>Comprehensive income, net of taxes</b>	<b>\$ 21.2</b>	<b>\$ 41.4</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Changes in Equity

(\$ millions)	Year ended December 31	
	2020	2019
<b>Common shares (note 17)</b>		
Balance, beginning of year	\$ 321.0	\$ 321.0
Balance, end of year	\$ 321.0	\$ 321.0
<b>Contributed surplus</b>		
Balance, beginning of year	\$ 100.5	\$ 100.0
Share option expense	0.2	0.5
Reclassified to share-based liability (note 17)	(0.7)	—
Balance, end of year	\$ 100.0	\$ 100.5
<b>Retained earnings</b>		
Balance, beginning of year	\$ 200.2	\$ 188.0
Net income after taxes	22.8	42.1
Common share dividends	(31.7)	(29.9)
Balance, end of year	\$ 191.3	\$ 200.2
<b>Accumulated other comprehensive loss (note 13)</b>		
Balance, beginning of year	\$ (1.1)	\$ (0.4)
Other comprehensive loss	(1.6)	(0.7)
Balance, end of year	\$ (2.7)	\$ (1.1)
<b>Total shareholder's equity</b>	<b>\$ 609.6</b>	<b>\$ 620.6</b>

*See accompanying notes to the consolidated financial statements.*

# Consolidated Statements of Cash Flows

(\$ millions)	Year ended December 31	
	2020	2019
<b>Cash from operations</b>		
Net income after taxes	\$ 22.8	\$ 42.1
Items not involving cash:		
Depreciation and amortization expense <i>(notes 5 and 6)</i>	36.8	31.7
Ikhil Joint Venture asset provision <i>(note 5)</i>	1.4	—
Accretion expense <i>(note 12)</i>	0.2	0.1
Deferred income tax expense (recovery) <i>(note 15)</i>	(2.3)	2.2
Income from equity investments <i>(note 9)</i>	(5.9)	(7.4)
Unrealized loss on foreign exchange contracts <i>(note 16)</i>	0.7	2.2
Other	(2.0)	(1.3)
Distributions from equity investment	8.1	8.0
Changes in operating assets and liabilities <i>(note 22)</i>	3.0	(1.0)
	\$ 62.8	\$ 76.6
<b>Investing activities</b>		
Addition to property, plant and equipment	(63.8)	(63.7)
Addition to intangible assets	(14.5)	(6.9)
Proceeds from disposition of assets, net of transaction costs	0.5	0.2
	\$ (77.8)	\$ (70.4)
<b>Financing activities</b>		
Net issuance (repayment) of short-term debt	(8.0)	6.3
Net repayment of bankers' acceptances	(36.4)	(231.0)
Issuance of long-term debt, net of debt issuance costs	99.0	248.1
Repayment of long-term debt	(1.0)	(1.0)
Payment of share issuance costs	—	(0.3)
Common share dividends	(31.7)	(29.9)
	\$ 21.9	\$ (7.8)
<b>Change in cash and cash equivalents</b>	<b>6.9</b>	<b>(1.6)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>0.2</b>	<b>1.8</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 7.1</b>	<b>\$ 0.2</b>

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

*(Tabular amounts and amounts in footnotes to tables are in millions of Canadian dollars, unless otherwise indicated.)*

## 1. OVERVIEW OF THE COMPANY

On March 31, 2020, the Public Sector Pension Investment Board (“PSP Investments”) and the Alberta Teachers’ Retirement Fund Board (“ATRF”) completed the acquisition of all of the outstanding common shares of TriSummit Utilities Inc. (formerly AltaGas Canada Inc.) (the “Company” or “TSU”), by TriSummit Cycle Inc. (formerly PSPIB Cycle Investments Inc.) (the “Purchaser”), a company in which PSP Investments indirectly holds a majority economic interest and ATRF indirectly holds a minority economic interest, with an all-cash transaction pursuant to a plan of arrangement (the “Arrangement”). The Purchaser acquired each common share of TSU for \$33.50 in cash and the Company is now a wholly-owned subsidiary of the Purchaser. In connection with the completion of the Arrangement, the Company changed its name to “TriSummit Utilities Inc.”. TSU remains incorporated under the *Canada Business Corporations Act*, with its headquarters located in Calgary, Alberta. While TSU does not have its securities listed on any stock exchange, it continues to be a reporting issuer under applicable Canadian securities laws because its public debt remains outstanding.

The Company owns rate-regulated natural gas distribution and transmission utility businesses through its operating subsidiaries Apex Utilities Inc. (formerly AltaGas Utilities Inc.) (“AUI”) in Alberta, Pacific Northern Gas Ltd. (“PNG”) and Pacific Northern Gas (N.E.) Ltd. (“PNG(N.E.)”) in British Columbia and Heritage Gas Limited (“HGL”) in Nova Scotia. The Company also owns the Bear Mountain Wind Park and an approximately 10 percent indirect interest in the Northwest Hydro Facilities.

## 2. BASIS OF PRESENTATION

### Basis of Preparation

These consolidated financial statements have been prepared by management in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”).

Pursuant to National Instrument 52-107, “Acceptable Accounting Principles and Auditing Standards” (“NI 52-107”), U.S. GAAP reporting is permitted by Canadian securities laws for companies subject to reporting obligations under U.S. securities laws. However, given that the Company is not subject to such reporting obligations and could not therefore rely on the provisions of NI 52-107 to that effect, the Company sought and obtained exemptive relief from the securities regulators in Alberta and Ontario to permit it to prepare its financial statements in accordance with U.S. GAAP. The exemption will terminate on or after the earlier of January 1, 2024, the date upon which the Company ceases to have activities subject to rate regulation, or the effective date prescribed for the mandatory application of a standard within International Financial Reporting Standards specific to entities with activities subject to rate regulation.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries, including, without limitation: TriSummit Utility Group Inc. (formerly AltaGas Utility Group Inc.), Bear Mountain Wind Limited Partnership, TriSummit Canadian Energy Holdings Ltd. (formerly AltaGas Canadian Energy Holdings Ltd.), PNG, AUI, and HGL. The consolidated financial statements also include investments in Inuvik Gas Ltd. and Northwest Hydro Limited Partnership (“Coast LP”), which are accounted for by the equity method. Intercompany transactions and balances are eliminated. Investments in unconsolidated companies that the Company has significant influence over, but not control, are accounted for using the equity method. In addition, the Company uses the equity method of accounting for investments in limited partnership interests in which it has more than a minor interest or influence over the partnership’s operating and financial policies.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### SIGNIFICANT ACCOUNTING POLICIES

##### Revenue Recognition

###### *Renewable Energy segment*

The majority of the revenues are earned through power purchase agreements whereby the Company is the lessor in these operating lease arrangements. Variable lease payments are recorded as revenue in the period in which the changes in facts and circumstances on which the variable lease payments are based on occur, such as when actual electricity is generated and delivered.

###### *Utilities segment*

Customers are billed monthly based on regular meter readings. Customer billings are based on two components: (i) a fixed service fee; and (ii) a variable fee based on usage. Revenue is recognized over time when the gas has been delivered or as the service has been performed. As meter readings occur on a cycle basis, the Company recognizes accrued revenue for any services rendered to its customers but not billed at month-end. Although the majority of these contracts have a term of one-month, certain contracts have terms of one year or longer. For these long-term contracts, there is generally a contract demand specified in the contract whereby the customer has to pay regardless of whether or not gas has been delivered. These contracts generally do not contain any make up rights and revenue is recognized monthly as service is performed.

##### Rate-Regulated Operations

AUI, PNG and HGL, (collectively “the Utilities”) engage in the delivery and sale of natural gas and are regulated by the Alberta Utilities Commission (“AUC”), the British Columbia Utilities Commission (“BCUC”), and the Nova Scotia Utility and Review Board (“NSUARB”), respectively.

The AUC, BCUC, and NSUARB exercise statutory authority over matters such as tariffs, rates, construction, operations, financing, returns, accounting and certain contracts with customers. In order to recognize the economic effects of the actions and decisions of the AUC, BCUC, and NSUARB, the timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using U.S. GAAP for entities not subject to rate regulation.

Regulatory assets represent future revenues associated with certain costs incurred in the current period or in prior periods that are expected to be recovered from customers in future periods through the rate setting process. Regulatory liabilities represent future reductions or limitations of increases in revenue associated with amounts that are expected to be refunded to customers through the rate setting process. See note 7 for a description of the principal financial statements effects of rate regulation.

##### Cash and cash equivalents

Cash and cash equivalents include cash on deposit with banks and interest-bearing short term investments with a maturity of three months or less when purchased. Cash and cash equivalents are stated at cost, which approximates market value.

##### Accounts Receivable

Receivables are recorded net of the allowance for doubtful accounts in the Consolidated Balance Sheet. The Company regularly analyzes and evaluates the collectability of the accounts receivable based on a combination of factors. If circumstances related to the collectability change, the allowance for doubtful accounts is further adjusted. Accounts are written off when collection efforts are complete and future recovery is unlikely.

##### Inventory

Inventory consists of materials, supplies, and natural gas, which are valued at the lower of cost or net realizable value. Cost of inventory is determined using a weighted average cost formula.

## Property, Plant, and Equipment (“PP&E”) and Depreciation

PP&E are carried at cost. The Company depreciates the cost of PP&E, net of salvage value, on a straight-line basis over the estimated useful life of the assets, with the exception of rate regulated utilities assets, where depreciation is calculated on a straight-line basis or over the contract term of a specific agreement at rates approved by the regulatory authorities.

Interest costs are capitalized on major additions to PP&E until the asset is ready for its intended use. The interest rate used for calculating the interest costs to be capitalized is based on the prior quarter actual borrowing long-term interest rate.

Utilities capitalize an imputed carrying cost on assets during construction as authorized by regulatory authorities and the amount so capitalized is an allowance for funds used during construction (“AFUDC”). AFUDC is the amount that a rate regulated enterprise is allowed to recover for its cost of financing assets under construction. Capitalized overhead, administrative expenses and AFUDC are included in the cost of the related assets and are recovered in rates charged to customers through depreciation expense, as allowed by the regulators.

Certain additions to PP&E are made with the assistance of contributions in aid of construction, which are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

The range of useful lives for the Company’s PP&E is as follows:

Renewable Energy assets	5 – 30 years
Utilities assets	3 – 75 years
Corporate assets	2 – 3 years

As required by the respective regulatory authorities, net additions to utility assets at HGL and PNG are not depreciated until the year after they are brought into active service and net additions to utility assets at AUI are depreciated commencing in the year in which the assets are brought into active service.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in the Consolidated Statement of Income. Any difference between the cost and accumulated depreciation of the asset, net of salvage proceeds, is charged to accumulated depreciation or another regulatory asset or liability account. It is expected that any gain or loss that is charged to accumulated depreciation or another regulatory account will be reflected in future depreciation expense when it is refunded or collected in rates. When a non-regulated asset is retired or disposed of from PP&E, the original cost and related accumulated depreciation and amortization are derecognized and any gain or loss is recorded in the Consolidated Statement of Income.

## Leases - Lessee

An arrangement contains a lease when such arrangement conveys the right to control the use of an identified asset. TSU recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which consists of the amount of the initial measurement of the lease liability, any lease payments made to the lessor at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the lessee. The lease liability is initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or if that cannot be readily determined, TSU’s incremental borrowing rate. Lease payments include: fixed payments (including in substance fixed payments), variable lease payments that are based on an index or a rate, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments for penalties for terminating the lease if the lease term reflects the lessee exercising that option, and amounts probable of being payable by the lessee under residual value guarantees. The Company has elected the practical expedient to not separate lease and non-lease components for its office and equipment leases. Subsequent measurement of the right-of-use asset and lease liability depend on whether the lease is classified as an operating lease or financing lease. Lease payments for leases with a term of twelve months or less are expensed on a straight-line basis over the lease term.

## Intangible Assets

Intangible assets which have a finite life are recorded at cost and are amortized on a straight-line basis over their term or estimated useful life. The range of useful lives for intangible assets with a finite life is as follows:

Software	3 - 10 years
Land rights	5 - 75 years
Franchises and consents	9 - 25 years

## Impairment of Assets

If facts and circumstances suggest that a long-lived asset or an intangible asset may be impaired, the carrying value is reviewed. If this review indicates that the value of the asset is not recoverable, as determined by the projected undiscounted cash flows related to the asset over its remaining life, then the carrying value of the asset is reduced to its estimated fair value and an impairment loss is recognized.

Goodwill is not subject to amortization, but assessed at least annually for impairment, or more often when events or changes in circumstances indicate that goodwill may be impaired. The annual assessment of goodwill is performed at the reporting unit level, which is an operating segment or one level below. The Company has the option to first assess qualitative factors to determine whether events or changes in circumstances indicate that the goodwill may be impaired. If a quantitative impairment test is performed, the fair value of each reporting unit is compared to its carrying value. The fair value of each reporting unit is determined using either the income approach or the market approach. If the carrying value of the reporting unit exceeds the fair value, an impairment loss would be recorded in the Consolidated Statement of Income.

## Development Costs

The Company expenses development costs as incurred unless such development costs meet certain criteria related to technical, market, regulatory and financial feasibility for capitalization. Development costs are examined annually to ensure capitalization criteria continue to be met. When the criteria that previously justified the deferral of costs are no longer met, the unamortized balance is taken as a charge to income in the period when this determination is made. Development costs are amortized based on the expected period of benefit, beginning at the commencement of commercial operations.

## Investments Accounted for by the Equity Method

The equity method of accounting is used for investments in which the Company has the ability to exercise significant influence, but does not have a controlling interest. In addition, the Company uses the equity method of accounting for investments in limited partnership interests in which it has more than a minor interest or influence over the partnership's operating and financial policies. Equity investments are initially measured at cost and are adjusted for the Company's proportionate share of earnings or losses. Equity investments are increased for contributions made and decreased for distributions received. To the extent an investee undertakes activities necessary to commence its planned principal operations, the Company will capitalize interest costs associated with its investment during such period.

An equity method investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. When such condition is deemed other than temporary, the carrying value of the investment is written down to its fair value, and an impairment charge is recorded in the Consolidated Statement of Income.

## Financial Instruments

Financial instruments are initially recorded at fair value unless they qualify for, and are designated under a normal purchase and normal sale ("NPNS") exemption. Subsequent measurement of the financial instruments is based on their classification.

A physical contract generally qualifies for the NPNS exemption if the transaction is reasonable in relation to the Company's business needs and the Company has the ability, and intent, to deliver or take delivery of the underlying item. The Company continually assesses the contracts designated under the NPNS exemption and will discontinue the treatment of these contracts under this exemption where the criteria are no longer met.

Held-for-trading financial assets and liabilities consist of foreign exchange forward contracts. These financial instruments are initially recorded at their fair value, with subsequent changes in fair value recorded in net income under “unrealized gain and loss from foreign exchange contracts”. Held-to-maturity, loans and receivables, and other financial liabilities are recognized at amortized cost using the effective interest method.

Derivatives embedded in other financial instruments or contracts (the host instrument) are recorded separately and are measured at fair value if the economic characteristics of the embedded derivative are not closely related to the host instrument, the terms of the embedded derivative are the same as those of a standalone derivative and the entire contract is not held-for-trading or accounted for at fair value. Changes in fair value are included in earnings.

Transaction costs related to the acquisition of held-for-trading financial assets and liabilities are expensed as incurred.

Transaction costs for obtaining debt financing other than line-of-credit arrangements are recognized as a direct deduction from the related debt liability on the Consolidated Balance Sheet. Premiums and discounts are netted against long-term debt on the Consolidated Balance Sheet. The deferred charges are amortized over the life of the related debt on an effective interest basis and included in “Interest expense” on the Consolidated Statement of Income.

### **Asset Retirement Obligations**

The Company recognizes asset retirement obligations in the period in which the legal obligation is incurred and a reasonable estimate of fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and are depreciated over the estimated useful life of the asset. The liability is increased due to the passage of time over the estimated period until the settlement of the obligation, with a corresponding charge to accretion expense for asset retirement obligations.

Certain utility assets will have future legal obligations on retirement, but an asset retirement obligation has not been recorded due to their indeterminate life and corresponding indeterminable timing and scope of these asset retirement obligations.

### **Foreign Currency Translation**

These consolidated financial statements are presented in Canadian dollars. Monetary assets and liabilities denominated in a foreign currency are converted to the functional currency (Canadian dollars) using the exchange rate in effect at the balance sheet date. Adjustments resulting from the conversion are recorded in the Consolidated Statement of Income. Non-monetary assets and liabilities are converted at the historical exchange rate in effect at the transaction date. Revenues and expenses are converted at the exchange rate applicable at the transaction date.

### **Pension Plans and Post-Retirement Benefits**

The Company maintains defined benefit pension plans, defined contribution plans, and other post-retirement benefit plans for eligible employees. Contributions made by the Company to the defined contribution plans are expensed in the period in which the contribution occurs. The cost of defined benefit pension plans and post-retirement benefits is actuarially determined using the projected benefit method prorated based on service and management’s best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Pension plan assets are measured at fair value. The expected return on plan assets is based on historical and projected rates of return for each asset class in the plan portfolio. The projected benefit obligation is discounted using the market interest rate on high-quality debt instruments with cash flows matching the timing and amount of benefit payments.

Pension expense for the defined benefit and post-retirement benefit plans includes the cost of pension benefits earned during the year, the interest cost on pension obligations, the expected return on pension plan assets, the amortization of adjustments arising from pension plan amendments, the amortization of prior service costs, and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10 percent of the greater of the accrued benefit obligation or the fair value of plan assets. Amortizations are calculated on a straight-line basis over the expected average remaining service life of active employees. The expected average remaining service period of the active members covered by the defined benefit pension plans and the post-retirement benefit plans is 15.3 years and 14.8 years, respectively.



The Company recognizes the overfunded or underfunded status of its pension and post-retirement benefit plans as either assets or liabilities in the Consolidated Balance Sheet. Unrecognized actuarial gains and losses and past service costs and credits that arise during the period are recognized in OCI.

For certain regulated Utilities, the Company expects to recover pension expense in future rates and therefore records actuarial gains and losses as either regulatory assets or liabilities. The regulatory assets or liabilities are amortized on a straight-line basis over the expected average remaining service life of active employees or the benefit period for employees, or a specific recovery period as approved by the respective regulator.

### **Stock-Based Compensation**

The Company had a Share Option Plan under which directors, officers and employees were eligible to receive grants. Share options granted were recorded at fair value. Compensation expense was measured at the date of the grant using the Black-Scholes-Merton model and recognized over the vesting period of the options. Immediately prior to the completion of the Arrangement, all options outstanding under the Share Option Plan unconditionally vested and were assigned and transferred to TSU in exchange for cash payment from TSU, and the Share Option Plan was terminated.

The Company had a medium-term incentive plan ("MTIP") for directors, officers and employees which included two types of awards: restricted share units ("RSUs") and performance share units ("PSUs"). Both RSUs and PSUs were valued based on the dividends declared during the vesting period and the weighted average share price of the Company's common shares multiplied by the units outstanding at the end of the vesting period. Compensation expense was recognized using the liability method and recorded as operating and administrative expense over the vesting period. A change in value of the RSUs or PSUs was recognized in the period the change occurred.

In addition, the Company had a deferred share unit plan ("DSUP") for directors, officers, and employees as an additional form of long-term variable compensation incentive. Although the DSUP was available to directors, officers and employees, the Company only granted deferred share units ("DSU") under the DSUP as a form of director compensation. The DSUs granted under the DSUP vested immediately. DSUs were accounted for at fair value. Compensation expense was determined based on the fair value of the DSUs on the date of the grant and fluctuations in fair value were recognized in the period the change occurred.

Immediately prior to the completion of the Arrangement, all outstanding PSUs and RSUs unconditionally vested and all outstanding PSUs, RSUs and DSUs were assigned and transferred to TSU in exchange for cash payment and the MTIP and DSUP were terminated.

### **Income Taxes**

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are in effect in the periods in which the differences are expected to be settled or realized. Deferred income tax assets are routinely reviewed and a valuation allowance is recorded to reduce the deferred tax assets if it is more likely than not that deferred tax assets will not be realized.

The financial statement effects of an uncertain tax position are recognized when it is more likely than not, based on technical merits, that the position will be sustained upon examination by a taxing authority. The current and deferred tax impact is equal to the largest amount, considering possible settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxing authorities.

Investment tax credits, if any, are deferred and amortized over the estimated service lives of the related assets.

Interest and penalties assessed by taxing authorities on any underpayment of income tax are accrued and classified as a component of interest expense in the Consolidated Statement of Income.

The rate-regulated natural gas distribution subsidiaries recognize a separate regulatory asset or liability for the amount of deferred income taxes expected to be recovered from, or paid to, customers in the future.

### **Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Any such accruals are adjusted thereafter as additional information becomes available or circumstances change.

### **USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY**

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Key areas where management has made complex or subjective judgments, when matters are inherently uncertain, include but are not limited to: revenue recognition, depreciation and amortization rates, determination of the classification, term and discount rate for leases, fair value of asset retirement obligations, fair value of property, plant and equipment and goodwill for impairment assessments, fair value of financial instruments, provisions for income taxes, assumptions used to measure employee future benefits, provisions for contingencies, and carrying value of regulatory assets and liabilities. Certain estimates are necessary for the regulatory environment in which the Company operates, which often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. By their nature, these estimates are subject to measurement uncertainty and may impact the consolidated financial statements of future periods.

### **ADOPTION OF NEW ACCOUNTING STANDARDS**

Effective January 1, 2020, the Company adopted the following Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”):

- ASU No. 2018-13 “Fair Value Measurement – Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments in this ASU modified the disclosure requirements on fair value measurements. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements;
- ASU No. 2018-14 “Compensation – Retirement Benefits-Defined Benefit Plans – General: Disclosure Framework – Changes to the Disclosure Requirements for the Defined Benefit Plans”. The amendments in this ASU modified the disclosure requirements on defined benefit pension and other postretirement plans. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements;
- ASU No. 2018-17 “Consolidation – Targeted Improvements to Related Party Guidance for Variable Interest Entities (“VIE”)”. The amendments in this ASU clarified that indirect interest held through related parties under common control will be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests. Under the new guidance, fewer decision-making fees will be considered variable interests in a VIE because the other interests held will be less significant using the proportionate method rather than when considered in their entirety. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements;
- ASU No. 2018-18 “Collaborative Arrangements – Clarifying the Interaction between Topic 808 and Topic 606”. The amendments in this ASU clarified that certain transactions between collaborative partners should be accounted for as revenue under ASC 606 when the collaborative partner is a customer. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements; and
- ASU No. 2019-04 “Topic 815 – Derivatives and Hedges and Topic 825 – Financial Instruments.” The amendments in this ASU clarified aspects of ASU 2017-12 regarding partial-term fair value hedges and fair value basis adjustments.

In addition, this ASU amended ASU 2016-01 to clarify that the measurement alternative in ASC 321-10 for equity securities without readily determinable fair value represents a nonrecurring fair value measurement under ASC 820. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

#### FUTURE CHANGES IN ACCOUNTING PRINCIPLES

In June 2016, FASB issued ASU No. 2016-13 "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments". The amendments in this ASU replace the current "incurred loss" impairment methodology with an "expected loss" model for financial assets measured at amortized cost. In November 2019, FASB issued ASU No. 2019-10 "Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842): Effective Dates" which deferred the effective date of ASU No. 2016-13 to January 1, 2023. Early adoption is permitted. The Company is currently completing its assessment of the impact of these ASUs on its consolidated financial statements.

In December 2019, FASB issued ASU No. 2019-12 "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes". The amendments in this ASU removes certain exceptions and provides some simplifications in accounting for income taxes. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In January 2020, FASB issued ASU No. 2020-01 "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323) and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815". The amendments in this ASU provides guidance for accounting for certain equity securities when the equity method of accounting is applied or discontinued and for forward contracts and purchased options on certain securities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

#### 4. INVENTORY

As at	<b>December 31,</b>	December 31,
	<b>2020</b>	2019
Natural gas	\$ 1.4	\$ 0.7
Other inventory	<b>0.8</b>	0.7
	<b>\$ 2.2</b>	\$ 1.4

#### 5. PROPERTY, PLANT AND EQUIPMENT

As at	<b>December 31, 2020</b>			December 31, 2019		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>	Cost	Accumulated amortization	Net book value
Renewable Energy	\$ 212.6	\$ (78.4)	\$ 134.2	\$ 212.5	\$ (71.2)	\$ 141.3
Utilities	1,058.6	(164.3)	894.3	1,003.6	(141.4)	862.2
Corporate	0.3	(0.1)	0.2	0.3	—	0.3
	<b>\$ 1,271.5</b>	<b>\$ (242.8)</b>	<b>\$ 1,028.7</b>	\$ 1,216.4	\$ (212.6)	\$ 1,003.8

Interest capitalized on long-term capital construction projects for the year ended December 31, 2020 was \$0.1 million (2019 - \$0.1 million).

Contributions in aid of construction of \$2.7 million (2019 - \$3.5 million) were recorded as a reduction of cost during the year.

Depreciation expense related to property, plant and equipment for the year ended December 31, 2020 was \$31.4 million (2019 - \$27.6 million). As at December 31, 2020, the Company had approximately \$15.0 million (December 31, 2019 - \$20.2 million) of capital projects under construction that were not yet subject to amortization. In addition, as at December 31, 2020, \$2.6 million of land costs (December 31, 2019 - \$2.6 million) were not subject to amortization.

During the year ended December 31, 2020, the Company recorded a pre-tax provision of approximately \$1.4 million on the Ikhil Joint Venture asset related to the asset retirement costs capitalized as a result of a change in estimates to the asset retirement obligation.

## 6. INTANGIBLE ASSETS

As at	December 31, 2020			December 31, 2019		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Software	\$ 38.8	\$ (12.8)	\$ 26.0	\$ 26.2	\$ (12.4)	\$ 13.8
Land rights	9.7	(2.7)	7.0	9.4	(2.5)	6.9
Franchises and consents	3.6	(2.6)	1.0	3.6	(2.4)	1.2
	\$ 52.1	\$ (18.1)	\$ 34.0	\$ 39.2	\$ (17.3)	\$ 21.9

Amortization expense related to intangible assets for the year ended December 31, 2020 was \$3.5 million (2019 - \$3.0 million).

As at December 31, 2020, the Company excluded \$2.2 million (December 31, 2019 - \$1.9 million) of assets with an indefinite life from the asset base subject to amortization.

The following table sets forth the estimated amortization expense of intangible assets, excluding any amortization of assets not yet subject to amortization as well as assets with indefinite life, for the years ended December 31:

2021	\$ 4.6
2022	\$ 4.7
2023	\$ 3.9
2024	\$ 3.3
2025	\$ 1.9
Thereafter	\$ 13.4

## 7. REGULATORY ASSETS AND LIABILITIES

The Company accounts for certain transactions in accordance with ASC 980, Regulated Operations. The Company refers to this accounting guidance for regulated entities as “regulatory accounting”. Under regulatory accounting, utilities are permitted to defer expenses and income as regulatory assets and liabilities, respectively, in the Consolidated Balance Sheet when it is probable that those expenses and income will be allowed in the rate-setting process in a period different from the period in which they would have been reflected in the Consolidated Statement of Income by a non-rate-regulated entity. These deferred regulatory assets and liabilities are included in the Consolidated Statement of Income in future periods when the amounts are reflected in customer rates. Management’s assessment of the probability of recovery or pass-through of regulatory assets and liabilities requires judgment and interpretation of laws and regulatory agency orders, rules, and rate-making conventions. The relevant regulatory bodies are the AUC, BCUC and NSUARB.

If, for any reason, the Company ceases to meet the criteria for application of regulatory accounting for all or part of its utility operations, regulatory assets and liabilities related to those portions ceasing to meet the criteria would be de-recognized from the Consolidated Balance Sheet and included in the Consolidated Statement of Income for the period in which discontinuance of regulatory accounting occurs. Factors that give rise to the discontinuance of regulatory accounting include: (i) increasing competition that restricts the Company’s ability to charge prices sufficient to recover specific costs, and (ii) a significant change in the manner in which rates are set by regulatory agencies from cost-based regulation to another form of regulation. The Company’s review of these criteria currently supports continued application of regulatory accounting for the Utilities.

The table below summarizes the regulatory assets and liabilities recorded in the Consolidated Balance Sheets as at December 31, 2020 and 2019 and the remaining period over which the Company expects to realize the assets or settle the liabilities:

As at	December 31, 2020	December 31, 2019	Recovery Period
<b>Regulatory assets - current</b>			
Deferred cost of gas	\$ 3.1	\$ 1.0	Less than one year
Deferred property taxes	0.7	0.6	Less than one year
	<b>\$ 3.8</b>	<b>\$ 1.6</b>	
<b>Regulatory assets - non-current</b>			
Deferred regulatory costs and rate stabilization adjustment	\$ 4.2	\$ 4.5	Various
Future recovery of pension and other retirement benefits <sup>(a)</sup>	42.8	33.6	Various
Deferred depreciation and amortization <sup>(b)</sup>	21.3	22.0	Various
Deferred future income taxes <sup>(c)</sup>	122.6	115.6	Various
Deferred customer retention program amortization <sup>(d)</sup>	40.3	36.2	Various
Revenue deficiency account <sup>(e)</sup>	21.7	21.2	Various
Other	4.4	1.9	Various
	<b>\$ 257.3</b>	<b>\$ 235.0</b>	
<b>Regulatory liabilities - current</b>			
Deferred cost of gas	\$ 4.9	\$ 6.7	Less than one year
Other	1.3	0.4	Less than one year
	<b>\$ 6.2</b>	<b>\$ 7.1</b>	
<b>Regulatory liabilities - non-current</b>			
Option fees deferral <sup>(f)</sup>	\$ 4.8	\$ 4.6	Various
Future removal and site restoration costs <sup>(g)</sup>	24.8	22.0	Various
Other	3.8	—	Various
	<b>\$ 33.4</b>	<b>\$ 26.6</b>	

(a) Certain utilities have recovered pension costs related to regulated operations in rates, and as such the Company has recorded a regulatory asset for the pension funding deficiency. Depending on the method utilized by the utility the recovery period can be either the expected service life of the employees or the benefit period for employees or a specific recovery period as approved by the respective regulator.

(b) Pursuant to the NSUARB decisions in 2009 and 2011, HGL was ordered to suspend amortization of property, plant and equipment and intangible assets for regulatory purposes for the fiscal periods from 2009 to 2013. The NSUARB, in its decision dated November 24, 2011, directed amortization to be phased in over a four year period at the following rates: 2014 at 25 percent of the authorized rates; 2015 at 50 percent of the authorized rates; 2016 at 75 percent of the authorized rates; and 2017 at 100 percent of the authorized rates. As a result of this order, HGL recognized a regulatory asset equal to the amortization that would have otherwise been included in rates.

(c) Remaining amortization period varies depending on the timing of underlying transactions.

(d) In 2016, the NSUARB approved HGL's Customer Retention Program ("CRP") application to decrease distribution rates for commercial customers with consumption between 500 and 4,999 gigajoule per year, suspend depreciation and to increase the capitalization rate for operating, maintenance and administrative expenses. On April 21, 2020, the NSUARB approved HGL's application to revise the CPR deferral mechanism to defer amounts equivalent to the price discount provided to certain small commercial customers, rather than suspending depreciation and deferring a portion of operating, maintenance and administrative expenses.

(e) HGL has an approval from the NSUARB to use a revenue deficiency account ("RDA") until it is fully recovered, subject to a maximum of \$50 million, imposed in 2010, which may be increased subject to approval by the NSUARB. The RDA is the cumulative difference between the revenue requirements and the actual amounts billed to customers.

(f) Pursuant to BCUC approved negotiated settlement agreement.

(g) This amount and timing of draw down is dependent upon the cost of removal of underlying utility property, plant and equipment and the life of property, plant and equipment.

## 8. LEASES

The Company's leases include: land, buildings, and office and field equipment.

As at	December 31, 2020	December 31, 2019
<b>Weighted average remaining lease term (years)</b>		
Operating leases	22.1	19.6
Finance leases	13.9	14.9
<b>Weighted average discount rate (%)</b>		
Operating leases	3.5	3.5
Finance leases	2.9	2.9

As at	December 31, 2020	December 31, 2019
<b>Operating Leases</b>		
Operating lease right of use assets <sup>(a)</sup>	\$ 7.1	\$ 8.3
Current <sup>(b)</sup>	\$ 1.3	\$ 1.3
Long-term	6.1	7.0
Total operating lease liabilities	\$ 7.4	\$ 8.3
<b>Finance Leases</b>		
Finance lease right of use assets, net <sup>(c)</sup>	\$ 0.4	\$ 0.5
Current portion of long-term debt	\$ —	\$ —
Long-term debt	0.4	0.5
Total finance lease liabilities	\$ 0.4	\$ 0.5

(a) Included under the line item "Other long-term assets" on the Consolidated Balance Sheets.

(b) Included under the line item "Other current liabilities" on the Consolidated Balance Sheets.

(c) Included under the line item "Property, plant and equipment" on the Consolidated Balance Sheets.

Maturity analysis of lease liabilities during the next five years and thereafter is as follows:

As at December 31, 2020	Operating Leases	Finance Leases
2021	\$ 1.6	\$ —
2022	1.0	—
2023	0.7	—
2024	0.7	—
2025	0.6	—
Thereafter	7.3	0.5
Total lease payments	\$ 11.9	\$ 0.5
Less: imputed interest	(4.5)	(0.1)
Total	\$ 7.4	\$ 0.4

The following table summarizes the lease expense recognized in the Consolidated Statement of Income:

	2020		Year ended December 31 2019	
<b>Operating lease cost</b>				
Operating leases	\$	1.7	\$	1.3
Short-term leases		0.2		0.2
Variable lease payments not included in the determination of lease liabilities		0.3		0.3
Total operating lease cost <sup>(a)</sup>	\$	2.2	\$	1.8
<b>Finance lease cost</b>				
Amortization of right-of-use assets		—		—
Interest on lease liabilities		—		—
Total finance lease cost		—		—
Total lease cost	\$	2.2	\$	1.8

(a) Included under the line item "Operating and administrative" on the Consolidated Statements of Income.

The following table provides supplemental information related to leases:

	2020		Year ended December 31 2019	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows used for operating leases	\$	1.4	\$	1.3
Right of use assets obtained in exchange for new lease liabilities:				
Operating leases	\$	0.1	\$	4.0
Finance leases	\$	—	\$	0.5

## 9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Description	Location	Ownership Percentage	December 31, 2020		December 31, 2019
Inuvik Gas Ltd.	Canada	33.333	\$	—	\$ —
Coast LP	Canada	10		116.1	118.4
			\$	116.1	\$ 118.4

Summarized financial information, assuming a 100% ownership interest in the equity investments listed above, is as follows:

	2020		Year ended December 31 2019	
Revenues	\$	138.0	\$	148.7
Expenses		(80.3)		(74.6)
	\$	57.7	\$	74.1

As at	December 31, 2020		December 31, 2019	
Current assets	\$	27.6	\$	29.6
Property, plant and equipment	\$	1,043.6	\$	1,068.1
Intangible assets	\$	240.4	\$	243.5
Current liabilities	\$	(26.5)	\$	(26.4)
Other long-term liabilities	\$	(124.3)	\$	(131.6)

During the year ended December 31, 2020, a distribution of \$8.1 million was received from Coast LP (2019 - \$8.0 million).

## 10. SHORT-TERM DEBT

As at December 31, 2020, the Company held a \$35.0 million (December 31, 2019 - \$35.0 million) revolving operating credit facility with a Canadian chartered bank. Borrowings under this facility are due on demand. Draws on this facility are by way of overdraft, Canadian prime rate loans, U.S. base-rate loans, letters of credit, bankers' acceptances and LIBOR loans. As at December 31, 2020, outstanding overdraft under this facility were \$nil (December 31, 2019 - \$0.9 million). Letters of credit outstanding under this facility as at December 31, 2020 were \$3.8 million (December 31, 2019 - \$3.8 million).

As at December 31, 2020, the Company held a \$25.0 million (December 31, 2019 - \$25.0 million) bank operating facility which is available for PNG's working capital purposes and expires on May 4, 2021. Draws on this facility are by way of prime-rate advances, bankers' acceptances or letters of credit at the bank's prime rate or for a fee. As at December 31, 2020, prime-rate advances under the operating facility were \$4.1 million (December 31, 2019 - \$11.2 million). Letters of credit outstanding under this facility as at December 31, 2020 were \$4.7 million (December 31, 2019 - \$3.9 million).

## 11. LONG-TERM DEBT

As at	Maturity date	December 31, 2020	December 31, 2019
<b>Credit facilities</b>			
\$200 million unsecured revolving credit facility <sup>(a)</sup>	31-Dec-2023	\$ 24.0	\$ 46.4
\$25 million PNG committed credit facility <sup>(a)</sup>	4-May-2023	25.0	25.0
<b>Debenture notes</b>			
PNG 2025 series debenture - 9.30 percent <sup>(b)</sup>	18-Jul-2025	11.5	12.0
PNG 2027 series debenture - 6.90 percent <sup>(b)</sup>	2-Dec-2027	12.5	13.0
Unsecured term loan	25-Oct-2020	—	14.0
<b>Medium term notes</b>			
\$300 million senior unsecured - 4.26 percent	5-Dec-2028	300.0	300.0
\$250 million senior unsecured - 3.15 percent	6-Apr-2026	250.0	250.0
\$100 million senior unsecured - 3.13 percent	7-Apr-2027	100.0	—
Finance lease liabilities (note 8)		0.4	0.5
		<b>\$ 723.4</b>	<b>\$ 660.9</b>
Less debt issuance costs and discount		<b>(3.4)</b>	<b>(3.3)</b>
		<b>\$ 720.0</b>	<b>\$ 657.6</b>
Less current portion		<b>(1.0)</b>	<b>(14.8)</b>
		<b>\$ 719.0</b>	<b>\$ 642.8</b>

(a) Borrowings on the credit facility can be by way of Canadian prime rate-based loans, U.S. base rate loans, bankers' acceptances and LIBOR loans.

(b) Collateral for the Secured Debentures consists of a specific first mortgage on substantially all of PNG's PP&E and gas purchase and gas sales contracts, and a first floating charge on other property, assets and undertakings.

Principal repayments of long-term debt during the next five years and thereafter are as follows:

As at	
2021	\$ 1.0
2022	\$ 1.0
2023	\$ 50.0
2024	\$ 1.0
2025	\$ 10.0
Thereafter	\$ 660.4
	<b>\$ 723.4</b>



## 12. ASSET RETIREMENT OBLIGATIONS

As at	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 3.1	\$ 1.8
Revision in estimated cash flow	1.2	1.2
Accretion expense	0.2	0.1
Balance, end of year	\$ 4.5	\$ 3.1

The Company estimates the undiscounted cash required to settle the asset retirement obligations, excluding growth for inflation, at December 31, 2020 was \$9.5 million (December 31, 2019 - \$8.1 million).

Asset retirement obligations have been recorded in the consolidated financial statements at estimated values discounted at rates between 3.5 and 7.5 percent and are expected to be incurred between 2024 and 2044. No assets have been legally restricted for settlement of the estimated liability.

## 13. ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>(\$ millions)</i>	Defined benefit pension and Post-Retirement Benefits plans
<b>Opening balance, January 1, 2020</b>	\$ (1.1)
OCI before reclassification	(2.2)
Amounts reclassified from AOCI	0.1
Current period OCI (pre-tax)	(2.1)
Income tax on amounts retained in AOCI	0.5
Net current period OCI	(1.6)
<b>Ending balance, December 31, 2020</b>	<b>(2.7)</b>
Opening balance, January 1, 2019	\$ (0.4)
OCI before reclassification	(0.9)
Current period OCI (pre-tax)	(0.9)
Income tax on amounts retained in AOCI	0.2
Net current period OCI	(0.7)
Ending balance, December 31, 2019	(1.1)

## 14. REVENUE

The following table disaggregates revenue by major sources:

	Year ended December 31, 2020			
	Renewable Energy	Utilities	Corporate	Total
<b>Revenue from contracts with customers</b>				
Gas sales and transportation services	\$ —	\$ 299.8	\$ —	\$ 299.8
Other	—	2.1	—	2.1
<b>Total revenue from contracts with customers</b>	<b>\$ —</b>	<b>\$ 301.9</b>	<b>\$ —</b>	<b>\$ 301.9</b>
<b>Other sources of revenue</b>				
Revenue from alternative revenue programs <sup>(a)</sup>	\$ —	\$ —	\$ —	\$ —
Leasing revenue <sup>(b)</sup>	18.3	—	—	18.3
Other	—	2.6	—	2.6
<b>Total revenue from other sources</b>	<b>\$ 18.3</b>	<b>\$ 2.6</b>	<b>\$ —</b>	<b>\$ 20.9</b>
<b>Total revenue</b>	<b>\$ 18.3</b>	<b>\$ 304.5</b>	<b>\$ —</b>	<b>\$ 322.8</b>

(a) A large portion of revenue generated from the Utilities segment is subject to rate regulation and accordingly there are circumstances where the revenue recognized is mandated by the applicable regulators in accordance with ASC 980.

(b) Relates to power sold to BC Hydro under the power purchase agreement for the Bear Mountain Wind Park, which is accounted for as an operating lease. The lease revenue earned are from variable lease payments which are recorded when actual electricity is generated and delivered.

	Year ended December 31, 2019			
	Renewable Energy	Utilities	Corporate	Total
<b>Revenue from contracts with customers</b>				
Gas sales and transportation services	\$ —	\$ 309.4	\$ —	\$ 309.4
Other	—	1.6	—	1.6
<b>Total revenue from contracts with customers</b>	<b>\$ —</b>	<b>\$ 311.0</b>	<b>\$ —</b>	<b>\$ 311.0</b>
<b>Other sources of revenue</b>				
Revenue from alternative revenue programs <sup>(a)</sup>	\$ —	\$ (5.7)	\$ —	\$ (5.7)
Leasing revenue <sup>(b)</sup>	14.8	—	—	14.8
Other	—	6.2	—	6.2
<b>Total revenue from other sources</b>	<b>\$ 14.8</b>	<b>\$ 0.5</b>	<b>\$ —</b>	<b>\$ 15.3</b>
<b>Total revenue</b>	<b>\$ 14.8</b>	<b>\$ 311.5</b>	<b>\$ —</b>	<b>\$ 326.3</b>

(a) A large portion of revenue generated from the Utilities segment is subject to rate regulation and accordingly there are circumstances where the revenue recognized is mandated by the applicable regulators in accordance with ASC 980.

(b) Relates to power sold to BC Hydro under the power purchase agreement for the Bear Mountain Wind Park, which is accounted for as an operating lease. The lease revenue earned are from variable lease payments which are recorded when actual electricity is generated and delivered.

The carrying value of PP&E associated with leasing revenue was \$132.7 million as at December 31, 2020 (December 31, 2019 - \$139.8 million).

Accounts receivable as at December 31, 2020 include unbilled receivables of \$30.6 million (December 31, 2019 - \$31.2 million) related to gas sales and transportation services rendered to customers but not billed at period end.

## Transaction price allocated to the remaining obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied as at December 31, 2020:

	2021	2022	2023	2024	2025	> 2025	Total
Gas sales and transportation services	\$ 38.4	\$ 33.1	\$ 28.9	\$ 20.7	\$ 17.8	\$ 203.8	\$ 342.7

The Company applies the practical expedient available under ASC 606 and does not disclose information about the remaining performance obligations for (i) contracts with an original expected length of one year or less, (ii) contracts for which revenue is recognized at the amount to which the Company has the right to invoice for performance completed, and (iii) contracts with variable consideration that is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation. In addition, the table above does not include any estimated amounts of variable consideration that are constrained. The majority of gas sales and transportation service contracts contain variable consideration whereby uncertainty related to the associated variable consideration will be resolved (usually on a daily basis) as gas is delivered or as service is provided.

## 15. INCOME TAXES

	Year ended December 31	
	2020	2019
Income before income taxes	\$ 22.7	\$ 46.5
Statutory income tax rate (%)	25.6	26.5
Expected taxes at statutory rates	\$ 5.8	\$ 12.3
Add (deduct) the tax effect of:		
Permanent differences between accounting and tax basis of assets and liabilities	1.9	0.5
Rate adjustments to enacted Canadian rates	—	0.8
Change in tax basis of investments	—	(15.1)
Change in valuation allowance	(0.1)	13.4
Effect of differences in rates of subsidiaries	0.4	—
Other	0.5	(0.2)
Deferred income tax recovery on regulated assets	(8.6)	(7.3)
Income tax provision	\$ (0.1)	\$ 4.4
Current	\$ 2.2	\$ 2.2
Deferred	(2.3)	2.2
	\$ (0.1)	\$ 4.4
Effective income tax rate (%)	(0.4)	9.5

Net deferred income tax liabilities comprise of the following:

	December 31, 2020	December 31, 2019
As at		
PP&E and intangible assets	\$ 81.3	\$ 75.6
Investments	15.5	19.1
Regulatory assets	57.4	53.2
Deferred compensation	(10.4)	(4.1)
Non-capital losses	(20.0)	(22.0)
Tax pools	(1.5)	(2.6)
Valuation allowance	17.2	17.2
Other	1.0	(0.1)
	\$ 140.5	\$ 136.3

The amount shown on the Consolidated Balance Sheets as deferred income tax liabilities represents the net differences between the tax basis and book carrying values on the Company's balance sheets at enacted tax rates.

As at December 31, 2020, the Company had non-capital losses of approximately \$74.7 million (December 31, 2019 - \$78.9 million), which expire between 2027 and 2039.

As at December 31, 2020 and 2019, the Company had no provision for uncertain tax positions.

## 16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of accounts receivable, foreign exchange contracts, accounts payable and accrued liabilities, short-term debt, current portion of long-term debt, and long-term debt. In addition, the Company entered into physical commodity contracts to manage exposure to fluctuations in commodity prices for its customers. The physical commodity contracts are not recorded on the balance sheet at fair value because they meet the normal purchase and normal sale exemption and are recognized in the consolidated income statement when the contracts are settled.

### Fair Value Hierarchy

The Company categorizes its financial assets and financial liabilities into one of three levels based on fair value measurements and inputs used to determine the fair value.

*Level 1* - fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Fair values are based on direct observations of transactions involving the same assets or liabilities and no assumptions are used.

*Level 2* - fair values are determined based on valuation models and techniques where inputs other than quoted prices included within level 1 are observable for the asset or liability either directly or indirectly. The Company uses derivative instruments to manage fluctuations in foreign exchange rates. The Company estimates forward prices based on published sources.

*Level 3* - fair values are based on inputs for the asset or liability that are not based on observable market data. The Company uses valuation techniques when observable market data is not available.

*Accounts receivable, accounts payable and accrued liabilities, and short-term debt* - the carrying amounts approximate fair value because of the short maturity of these instruments.

	December 31, 2020				Total Fair Value
	Carrying Amount	Level 1	Level 2	Level 3	
Financial liabilities					
Fair value through net income					
Foreign exchange contracts liability	\$ 1.5	\$ —	\$ 1.5	\$ —	\$ 1.5
Amortized cost					
Current portion of long-term debt <sup>(a)</sup>	\$ 1.0	\$ —	\$ 1.0	\$ —	\$ 1.0
Long-term debt <sup>(a)</sup>	722.4	—	821.5	—	821.5
	<b>\$ 724.9</b>	<b>\$ —</b>	<b>\$ 824.0</b>	<b>\$ —</b>	<b>\$ 824.0</b>

*(a) Excludes deferred financing costs and debt discount.*

	December 31, 2019				
	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Financial liabilities</b>					
Fair value through net income					
Foreign exchange contracts liability	\$ 0.8	\$ —	\$ 0.8	\$ —	\$ 0.8
Amortized cost					
Current portion of long-term debt <sup>(a)</sup>	\$ 15.0	\$ —	\$ 15.0	\$ —	\$ 15.0
Long-term debt <sup>(a)</sup>	645.9	—	686.8	—	686.8
	<b>\$ 661.7</b>	<b>\$ —</b>	<b>\$ 702.6</b>	<b>\$ —</b>	<b>\$ 702.6</b>

(a) Excludes deferred financing costs and debt discount.

### Risks associated with financial instruments

The Company is exposed to various financial risks in the normal course of operations such as market risks resulting from fluctuations in currency exchange rates and interest rates as well as credit risk and liquidity risk.

#### Foreign Exchange Risk

The vast majority of HGL's natural gas supply costs are denominated in U.S. dollars. Although all natural gas procurement costs, including any realized foreign exchange gains or losses are passed through to its customers, the Company has entered into foreign exchange forward contracts to manage the risk of fluctuations in gas costs for customers as a result of changes in foreign exchange rates. In addition, the Company has entered into foreign exchange forward contracts to manage the foreign exchange risk from certain commitments denominated in U.S. dollars. As at December 31, 2020, the Company had outstanding foreign exchange forward contracts for US\$20.1 million at an average rate of \$1.35 Canadian per U.S. dollar. As at December 31, 2019, the Company had outstanding foreign exchange forward contracts for US\$31.5 million at an average rate of \$1.32 Canadian per U.S. dollar.

#### Interest Rate Risk

The Company is exposed to interest rate risk as changes in interest rates may impact future cash flows and the fair value of its financial instruments. The Company manages interest rate risk by holding a mix of both fixed and floating interest rate debt. In addition, the Company's strategy is to optimize financing plans to maintain credit ratings to minimize interest costs. The Company proactively monitors and manages its debt maturity profile and debt covenants and maintains financial flexibility through access to multiple credit facilities.

#### Credit Risk

Credit risk results from the possibility that a counterparty to a financial instrument fails to fulfill its obligations in accordance with the terms of the contract. The Company's maximum credit exposure consists primarily of the carrying value of accounts receivable and the fair value of derivative financial assets. The Company's utilities business generally has a large and diversified customer base, which minimizes the concentration of credit risk. To minimize credit risk, the utilities business will request for a security deposit which is eligible for refund after an observable period of compliance with payment terms. A credit report may also be requested. For the Company's renewable generation assets, all power generated are sold under the electricity purchase agreement with BC Hydro, an investment grade counterparty.

In response to the novel coronavirus of 2019 ("COVID-19") pandemic, provincial governments across Canada have enacted emergency measures to combat the spread of the virus. During the COVID-19 pandemic, TSU and its utilities are focusing on the health and safety of their employees and customers while continuing to provide safe and reliable services. In response to the COVID-19 pandemic, several temporary customer relief initiatives were provided to customers at the outset of the pandemic. While the Company is continuing to work with its customers to establish payment arrangements, it has resumed normal collection activities in connection with overdue accounts during the third quarter of 2020.

In March 2020, the Government of Alberta announced a program for Albertans who were experiencing financial hardship directly related to the COVID-19 pandemic to be able to defer payment of electricity and natural gas bills from March 18, 2020 until June

18, 2020 without any late fees or added interest payments. In addition, no Albertans could be disconnected from these services or see their services reduced during this period due to non-payment. Albertans who have enrolled in the bill deferral program must repay the deferred amount by June 18, 2021. On May 28, 2020, the AUC approved AUI's application to establish deferral accounts for the purposes of administering deferred payments under the Utility Payment Deferral Program Act (Alberta). Based on guidelines from the AUC, AUI resumed collection activities at the beginning of July 2020. As at December 31, 2020, AUI has deferred approximately \$0.8 million under these deferral accounts.

On March 23, 2020, the NSUARB approved HGL's request to offer discretionary temporary measures to customers impacted by the COVID-19 pandemic. These temporary measures included offering flexible payment plans for its customers, waiving fees and interest, waiving fixed monthly customer charges for any customers that may temporarily lock their service, temporarily halting the Company's disconnection practices and temporarily suspending collections on overdue accounts. Beginning in early July 2020, HGL resumed collection activities in connection with overdue accounts. HGL resumed charging late fees and interest in October 2020.

On June 10, 2020, the BCUC approved PNG's application to offer a bill payment deferral program between April 17, 2020 and June 30, 2020 to residential and small commercial customers that have experienced a loss of income or revenue as a result of the COVID-19 pandemic. The BCUC also granted approval for PNG to establish deferral accounts to capture unplanned costs incurred and cost savings as a result of the COVID-19 pandemic and to capture bad debts that may be incurred specifically as a result of the impact of COVID-19. PNG will apply for the amortization of the COVID-19 deferral accounts in future revenue requirement applications. As at December 31, 2020, \$1.0 million of net cost savings have been identified and deferred as regulatory liabilities. During the outset of the COVID-19 pandemic, PNG also temporarily halted disconnection practices for overdue accounts related to COVID-19 disruption. PNG resumed collection efforts in connection with overdue accounts in late June 2020.

#### Accounts Receivable Past Due or Impaired

The Company had the following past due or impaired accounts receivable (AR):

As at December 31, 2020	Total	AR Receivables		Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days
		accruals	impaired				
Trade receivable	\$ 62.5	\$ 30.6	1.5	28.1	1.3	0.4	0.6
Other	3.8	0.4	—	3.4	—	—	—
Allowance for credit losses	(1.5)	—	(1.5)	—	—	—	—
	\$ 64.8	\$ 31.0	\$ —	\$ 31.5	\$ 1.3	\$ 0.4	\$ 0.6

As at December 31, 2019	Total	AR Receivables		Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days
		accruals	impaired				
Trade receivable	\$ 62.0	\$ 17.7	\$ 1.0	\$ 40.7	\$ 1.8	\$ 0.3	\$ 0.5
Other	3.6	0.8	—	2.8	—	—	—
Allowance for credit losses	(1.0)	—	(1.0)	—	—	—	—
	\$ 64.6	\$ 18.5	\$ —	\$ 43.5	\$ 1.8	\$ 0.3	\$ 0.5

	Year ended	
	2020	December 31 2019
Allowance for credit losses		
Balance, beginning of year	\$ 1.0	\$ 1.1
New allowance	0.7	0.4
Recovery of allowance	0.3	0.2
Allowance applied to uncollectible customer accounts	(0.5)	(0.7)
Balance, end of year	\$ 1.5	\$ 1.0

## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages this risk through its extensive budgeting and monitoring process to ensure it has sufficient cash and credit facilities to meet its obligations as they come due and to support business operations and the Company's capital program. The Company's objective is to ensure it has access to debt and equity funding as required. The Company's strategy is to maintain and comply with debt covenants to minimize financing costs.

While the COVID-19 pandemic did not significantly impact the liquidity position of the Company as at December 31, 2020, given the unprecedented and changing developments surrounding the COVID-19 pandemic, it is not possible to reliably estimate the impact of the COVID-19 pandemic on the financial condition of the Company in future periods. As at December 31, 2020, the Company has approximately \$230.5 million of cash balances and available credit facilities. The Company is continuing to monitor the potential impact of the pandemic on ongoing operations and associated financial implications.

The Company had the following contractual maturities with respect to financial liabilities:

As at December 31, 2020	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	\$ 62.9	\$ 62.9	\$ —	\$ —	\$ —
Short-term debt	4.1	4.1	—	—	—
Current portion of long-term debt <sup>(a)</sup>	1.0	1.0	—	—	—
Long-term debt <sup>(a)</sup>	722.4	—	51.0	11.0	660.4
	\$ 790.4	\$ 68.0	\$ 51.0	\$ 11.0	\$ 660.4

<sup>(a)</sup> Excludes deferred financing costs

As at December 31, 2019	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	\$ 62.1	\$ 62.1	\$ —	\$ —	\$ —
Short-term debt	12.1	12.1	—	—	—
Current portion of long-term debt <sup>(a)</sup>	15.0	15.0	—	—	—
Long-term debt <sup>(a)</sup>	645.9	—	2.0	72.4	571.5
	\$ 735.1	\$ 89.2	\$ 2.0	\$ 72.4	\$ 571.5

<sup>(a)</sup> Excludes deferred financing costs

## 17. SHAREHOLDERS' EQUITY

### Authorized share capital

The Company is authorized to issue an unlimited number of voting common shares. The Company is also authorized to issue preferred shares not to exceed 50 percent share of the voting rights attached to the issued and outstanding common shares.

### Common shares issued and outstanding

As at December 31, 2020 and 2019, there were 30,000,000 of common shares issued and outstanding.

## Share Option Plan

The following table summarizes information about the Company's share options:

As at	December 31, 2020		December 31, 2019	
	Number of options	Exercise price <sup>(a)</sup>	Number of options	Exercise price <sup>(a)</sup>
Share options outstanding, beginning of year	534,766	\$ 18.56	200,375	\$ 14.65
Granted	—	—	334,391	20.90
Transferred to TSU in exchange for cash payment	534,766	18.56	—	—
<b>Share options outstanding, end of year</b>	<b>—</b>	<b>\$ —</b>	<b>534,766</b>	<b>\$ 18.56</b>
<b>Share options exercisable, end of year</b>	<b>—</b>	<b>\$ —</b>	<b>50,095</b>	<b>\$ 14.65</b>

(a) Weighted average

During the year ended December 31, 2020, the Company recorded \$7.5 million of stock options expense (2019 - \$0.5 million)

PSUs, RSUs, and DSUs (number of units)	December 31,	December 31,
	2020	2019
Balance, beginning of year	225,932	92,502
Granted	5,354	126,123
Units in lieu of dividends	1,881	7,307
Vested and transferred to TSU in exchange for cash payment	(233,167)	—
Outstanding, end of year	—	225,932

For the year ended December 31, 2020, the compensation expense recorded for the MTIP and DSUP was \$5.3 million (2019 - \$2.4 million).

## 18. PENSION PLANS AND RETIREE BENEFITS

### Defined Contribution Plan

The Company has a defined contribution ("DC") pension plan for substantially all employees who are not members of defined benefit plans. The pension cost recorded for the DC plan was \$0.5 million for the year ended December 31, 2020 (2019 - \$0.5 million).

### Defined Benefit Plans and Post-Retirement Benefits

The Company has several defined benefit plans and post-retirement benefit plans for unionized and non-unionized employees. All defined benefit plans are funded. The post-retirement benefit plans are not funded except for one plan. Benefits provided to retired employees are limited to the payment of life insurance and health insurance premiums.

The costs of the defined benefit and post-retirement benefit plans are based on management's estimate of the future rate of return on the fair value of pension plan assets, salary escalations, mortality rates and other factors affecting the payment of future benefits.

### Supplemental Executive Retirement Plan (SERP)

The Company has non-registered, defined benefit pension plans that provide defined benefit pension benefits to eligible executives based on average earnings, years of service and age at retirement. The SERP benefits will be paid from the general revenue of the Company as payments come due. Security will be provided for the SERP benefits through a letter of credit within a retirement compensation arrangement trust account.

### Actuarial valuation

The Company's most recent actuarial valuation of its defined benefit plans for funding purposes was completed as at December 31, 2019. The Company is required to file an actuarial valuation of its Canadian defined benefit plans with the pension regulators



at least every three years. The actuarial valuation for funding purposes was filed with the pension regulators in 2020 and the next actuarial valuation for funding purposes is required to be completed as of a date no later than December 31, 2022. The following table summarizes details of the Company's defined benefit plans, including the SERP and post-retirement plans:

Year ended December 31, 2020	Defined Benefit	Post- Retirement Benefits	Total
<b>Accrued benefit obligation</b>			
Balance, beginning of year	\$ 136.0	\$ 12.8	\$ 148.8
Actuarial loss	16.4	1.8	18.2
Current service cost	7.1	0.6	7.7
Member contributions	0.1	—	0.1
Interest cost	4.0	0.4	4.4
Benefits paid	(5.4)	(0.3)	(5.7)
Expenses paid	(0.3)	—	(0.3)
Balance, end of year	\$ 157.9	\$ 15.3	\$ 173.2
<b>Plan assets</b>			
Fair value, beginning of year	\$ 105.3	\$ 9.4	\$ 114.7
Actual return on plan assets	10.7	1.0	11.7
Employer contributions	7.8	0.3	8.1
Member contributions	0.1	—	0.1
Benefits paid	(5.4)	(0.3)	(5.7)
Expenses paid	(0.3)	—	(0.3)
Fair value, end of year	\$ 118.2	\$ 10.4	\$ 128.6
Net amount recognized	\$ (39.7)	\$ (4.9)	\$ (44.6)

Year ended December 31, 2019	Defined Benefit	Post- Retirement Benefits	Total
<b>Accrued benefit obligation</b>			
Balance, beginning of year	\$ 117.2	\$ 13.2	\$ 130.4
Actuarial (gain) loss	12.5	(1.2)	11.3
Current service cost	6.3	0.6	6.9
Member contributions	0.1	—	0.1
Interest cost	4.5	0.5	5.0
Benefits paid	(4.4)	(0.3)	(4.7)
Expenses paid	(0.2)	—	(0.2)
Balance, end of year	\$ 136.0	\$ 12.8	\$ 148.8
<b>Plan assets</b>			
Fair value, beginning of year	\$ 91.9	\$ 8.8	\$ 100.7
Actual return on plan assets	11.1	0.4	11.5
Employer contributions	6.8	0.5	7.3
Member contributions	0.1	—	0.1
Benefits paid	(4.4)	(0.3)	(4.7)
Expenses paid	(0.2)	—	(0.2)
Fair value, end of year	\$ 105.3	\$ 9.4	\$ 114.7
Net amount recognized	\$ (30.7)	\$ (3.4)	\$ (34.1)

As at December 31, 2020, the most significant factor contributing to actuarial losses on the defined benefit plans was the decrease in the discount rate. The updating of census data and associated demographic experience as at December 31, 2020 also resulted in actuarial losses for certain defined benefit plans.

As at December 31, 2020, the most significant factors contributing to actuarial losses on the post-retirement benefit plans were the decrease in the discount rate, the increase in overall claim costs and administration expenses, and demographic experience losses calculated from the refreshed census data as at December 31, 2020.

The following amounts were included in the Consolidated Balance Sheet:

	December 31, 2020			December 31, 2019		
	Defined Benefit	Post-Retirement Benefits	Total	Defined Benefit	Post-Retirement Benefits	Total
Other long-term assets	\$ —	\$ 3.5	\$ 3.5	\$ —	\$ 2.5	\$ 2.5
Future employee obligations	(39.7)	(8.4)	(48.1)	(30.7)	(5.9)	(36.6)
	\$ (39.7)	\$ (4.9)	\$ (44.6)	\$ (30.7)	\$ (3.4)	\$ (34.1)

The funded status based on the accumulated benefit obligation for all defined benefit plans were:

As at	December 31, 2020	December 31, 2019
Accumulated benefit obligation <sup>(a)</sup>	\$ (137.8)	\$ (119.8)
Fair value of plan assets	118.2	105.3
Funded status	\$ (19.6)	\$ (14.5)

(a) Accumulated benefit obligation differs from future employee obligations accrued on the balance sheet in that it does not include an assumption with respect to future compensation levels.

The following amounts were not recognized in the net periodic benefit cost and recorded in other comprehensive losses:

Year ended December 31, 2020	Defined Benefit	Post-Retirement Benefits	Total
Net actuarial loss	\$ (0.5)	\$ (3.1)	\$ (3.6)
Recognized in AOCI pre-tax	\$ (0.5)	\$ (3.1)	\$ (3.6)
Increase by the amount included in deferred tax liabilities	0.1	0.8	0.9
Net amount in AOCI after-tax	\$ (0.4)	\$ (2.3)	\$ (2.7)

Year ended December 31, 2019	Defined Benefit	Post-Retirement Benefits	Total
Net actuarial loss	\$ (0.4)	\$ (1.1)	\$ (1.5)
Recognized in AOCI pre-tax	\$ (0.4)	\$ (1.1)	\$ (1.5)
Increase by the amount included in deferred tax liabilities	0.1	0.3	0.4
Net amount in AOCI after-tax	\$ (0.3)	\$ (0.8)	\$ (1.1)

The costs of the defined benefit and post-retirement benefit plans are based on management's estimate of the future rate of return on the fair value of pension plan assets, salary escalations, mortality rates and other factors affecting the payment of future benefits.

The net pension expense by plan for the period was as follows:

	Defined Benefit	Post- Retirement Benefits	Total
Year ended December 31, 2020			
Current service cost <sup>(a)</sup>	\$ 7.1	\$ 0.6	\$ 7.7
Interest cost <sup>(b)</sup>	4.0	0.4	4.4
Expected return on plan assets <sup>(b)</sup>	(6.2)	(0.3)	(6.5)
Amortization of net actuarial loss <sup>(b)</sup>	—	(0.1)	(0.1)
Amortization of regulatory asset <sup>(b)</sup>	1.7	—	1.7
<b>Net benefit cost recognized</b>	<b>\$ 6.6</b>	<b>\$ 0.6</b>	<b>\$ 7.2</b>

(a) Recorded under the line item "Operating and administrative" expenses on the Consolidated Statement of Income

(b) Recorded under the line item "Other loss" on the Consolidated Statement of Income.

	Defined Benefit	Post- Retirement Benefits	Total
Year ended December 31, 2019			
Current service cost <sup>(a)</sup>	\$ 6.3	\$ 0.6	\$ 6.9
Interest cost <sup>(b)</sup>	4.5	0.5	5.0
Expected return on plan assets <sup>(b)</sup>	(5.7)	(0.3)	(6.0)
Amortization of regulatory asset <sup>(b)</sup>	1.2	—	1.2
<b>Net benefit cost recognized</b>	<b>\$ 6.3</b>	<b>\$ 0.8</b>	<b>\$ 7.1</b>

(a) Recorded under the line item "Operating and administrative" expenses on the Consolidated Statement of Income.

(b) Recorded under the line item "Other loss" on the Consolidated Statement of Income.

The objective of the Company's investment policy is to maximize long-term total return while protecting the capital value of the fund from major market fluctuations through diversification and selection of investments.

The objective for fund returns, over three to five-year periods, is the sum of two components - a passive component, which is the benchmark index market returns for the asset mix in effect, plus the added value expected from active management. It is the Company's belief that the potential additional returns justify the additional risk associated with active management. The risk inherent in the investment strategy over a market cycle (a three-to five-year period) is two-fold. There is a risk that the market returns, as measured by the benchmark returns, will not be in line with expectations. The other risk is that the expected added value of active management over passive management will not be realized over the time period prescribed in each fund manager's mandate. There is also the risk of annual volatility in returns, which means that in any one year the actual return may be very different from the expected return.

Cash and money market investments may be held from time to time as short-term investment decisions at the discretion of the fund manager(s) within the constraints prescribed by their mandate(s).

The Company has a target asset mix of 45 percent to 55 percent fixed income assets. These objectives take into account the nature of the liabilities and the risk-reward tolerance of the Company.

The collective investment mixes for the plans are as follows as at December 31, 2020:

	Fair value	Level 1	Level 2	Level 3	Percentage of Plan Assets (%)
Cash and short-term equivalents	\$ 5.7	\$ 5.7	\$ —	\$ —	4.4
Canadian equities	41.0	41.0	—	—	31.8
Foreign equities	23.6	23.6	—	—	18.4
Fixed income	51.4	51.4	—	—	40.0
Real estate	6.9	—	6.9	—	5.4
	<b>\$ 128.6</b>	<b>\$ 121.7</b>	<b>\$ 6.9</b>	<b>\$ —</b>	<b>100.0</b>

Significant actuarial assumptions used in measuring net benefit plan costs	Defined	Post-	Defined	Post-
	Benefit	Retirement	Benefit	Retirement
Year ended December 31	2020	Benefits	2019	Benefits
Discount rate (%)	2.50 - 3.20	3.16	3.10 - 4.10	3.90
Expected long-term rate of return on plan assets (%) <sup>(a)</sup>	0.00 - 5.92	3.10	0.00 - 6.08	3.10
Rate of compensation increase (%)	0.00 - 3.50	3.00	0.00 - 3.50	3.25
Average remaining service life of active employees (years)	15.3	14.8	15.0	14.7

(a) Only applicable for funded plans

Significant actuarial assumptions used in measuring benefit obligations	Defined	Post-	Defined	Post-
	Benefit	Retirement	Benefit	Retirement
As at December 31	2020	Benefits	2019	Benefits
Discount rate (%)	1.00 - 2.81	2.69 - 2.79	2.50 - 3.20	3.16 - 3.17
Rate of compensation increase (%)	2.00 - 3.00	3.00	0.00 - 3.50	3.00

The expected rate of return on assets is based on the current level of expected returns on risk free investments, the historical level of risk premium associated with other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected rate of return on assets assumption for the portfolio.

The discount rate is based on high-quality long-term corporate bonds, with maturities matching the estimated timing and amount of expected benefit payments.

The estimates for health care benefits take into consideration increased health care benefits due to aging and cost increases in the future. The assumed initial health care cost trend rate used to measure the expected cost of benefits is 6.11% percent and the ultimate trend rate is 4.0% percent, which is expected to be achieved by 2040.

The following table shows the expected cash flows for defined benefit pension and other-post retirement plans:

	Defined	Post-
	Benefit	Retirement
		Benefits
<b>Expected employer contributions:</b>		
2021	\$ 7.4	\$ 0.3
<b>Expected benefit payments:</b>		
2021	\$ 4.7	\$ 0.3
2022	4.9	0.4
2023	5.1	0.4
2024	5.3	0.4
2025	5.6	0.4
2026-2030	\$ 30.8	\$ 2.6

## 19. TRANSACTION COSTS

During the year ended December 31, 2020, TSU incurred \$22.7 million of pre-tax transaction costs in respect of the Arrangement, which have been included in the Consolidated Statement of Income under the line item "Operating and administrative expense" (December 31, 2019 - \$2.3 million).

## 20. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Commitments

The Company has long-term natural gas purchase and transportation arrangements, service agreements and operating and finance leases, all of which are transacted at market prices and in the normal course of business.

Future payments of these commitments at December 31, 2020 are estimated as follows:

	2021	2022	2023	2024	2025	2026 and beyond	Total
Gas purchase and transportation <sup>(a)</sup>	\$ 51.4	\$ 32.6	\$ 26.1	\$ 21.0	\$ 19.3	\$ 193.2	\$ 343.6
Service agreement <sup>(b)</sup>	6.9	1.2	1.3	1.3	1.3	8.7	20.7
Operating and finance leases <sup>(c)</sup>	1.6	1.0	0.7	0.7	0.6	7.8	12.4
	\$ 59.9	\$ 34.8	\$ 28.1	\$ 23.0	\$ 21.2	\$ 209.7	\$ 376.7

(a) The Company enters into contracts to purchase natural gas and natural gas transportation services from various suppliers for its utilities. These contracts, which have expiration dates that range from 2021 to 2046, are used to ensure that there is an adequate supply of natural gas to meet the needs of customers and to minimize exposure to market price fluctuations.

(b) In 2007, the Company entered into a service and maintenance agreement with Enercon GmbH for the wind turbines for Bear Mountain Wind Park. The Company has an obligation to pay approximately \$3 million in 2021. In 2019, the Company entered into a long-term agreement for software implementation, hosting and maintenance. The Company is obligated to pay approximately US\$14.0 million over the 11 year term of the contract.

(c) Operating and finance leases include lease arrangements for office spaces, land, and office and other equipment.

### Guarantees

In October 2014, HGL entered into a throughput service contract with Enbridge Inc. for the use of the expansion of its Algonquin Gas Transmission and Maritimes & Northeast Pipeline systems (the "Atlantic Bridge Project"). The contract commenced on October 1, 2020 and will expire 15 years thereafter. The Company issued two guarantees with an aggregate maximum liability of US\$91.7 million, guaranteeing HGL's payment obligations under the throughput service contract with Enbridge Inc.

The Company, through HGL, has other agreements in place with natural gas distributors and wholesale gas marketers for the purchase and transportation of natural gas. As at December 31, 2020, the Company had guarantees with an aggregate maximum liability of US\$35.0 million and \$3.3 million guaranteeing HGL's payment under those agreements.

On October 22, 2018, the Company issued a guarantee with a maximum liability of \$0.3 million related to the land tenure and the right of way for permanent access and power line access at Bear Mountain Wind Park.

### Contingencies

The Company is subject to various legal claims and actions arising in the normal course of the Company. While the final outcome of such legal claims and actions cannot be predicted with certainty, the Company does not believe that the resolution of such claims and actions will have a material impact on the Company's consolidated financial position or results of operations.

## 21. RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Company transacts with its joint ventures and associates. AltaGas Ltd. ("AltaGas") ceased to be associated with the Company on completion of the Arrangement on March 31, 2020.

### Transition Services Agreement

On October 18, 2018, the Company entered into a Transition Services Agreement with AltaGas pursuant to which AltaGas provided certain general administrative and corporate services required by the Company, which included: accounting, tax, finance, legal and regulatory, payroll, corporate human resources and pension management, environmental, health and safety administration, procurement, enterprise resource planning and information technology. AltaGas provided the services on a cost recovery basis only. The Transition Services Agreement terminated on May 31, 2020.

## Related party balances

Amounts due to or from related parties on the Consolidated Balance Sheets, arising from transactions with joint ventures and associates (including AltaGas and its affiliates prior to March 31, 2020), are measured at the exchange amount and are as follows:

As at	December 31,		December 31,	
	2020		2019	
<b>Due to related parties</b>				
Accounts payable <sup>(a)</sup>	\$	—	\$	14.3
	\$	—	\$	14.3

(a) Foreign exchange hedges with AltaGas.

## Related party transactions

The following transactions with joint ventures and associates (including AltaGas and its affiliates prior to March 31, 2020) are measured at the exchange amount and have been recorded on the Consolidated Statements of Income:

	2020		Year ended December 31 2019	
Revenue <sup>(a)</sup>	\$	1.3	\$	2.4
Unrealized loss on foreign exchange contracts with AltaGas	\$	—	\$	(0.9)
Cost of sales <sup>(b)</sup>	\$	(30.6)	\$	(100.8)
Operating and administrative expenses <sup>(c)</sup>	\$	(0.1)	\$	(1.9)

(a) In the normal course of business, the Company provided gas sales and transportation services to related parties.

(b) In the normal course of business, the Company purchased natural gas from a related party.

(c) Operating and administrative expenses include the fees paid to AltaGas for transition services and administrative costs recovered from joint ventures.

## 22. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details the changes in operating assets and liabilities:

	2020		Year ended December 31 2019	
Source (use) of cash:				
Accounts receivable	\$	(1.2)	\$	(2.7)
Inventory		(0.8)		—
Other current assets		(0.6)		1.1
Regulatory assets (current)		(2.2)		(1.0)
Accounts payable and accrued liabilities		2.1		(3.4)
Customer deposits		0.3		(0.8)
Regulatory liabilities (current)		(0.9)		(1.8)
Other current liabilities		0.1		0.9
Net change in regulatory assets and liabilities (long-term) <sup>(a)</sup>		6.0		7.9
Other long-term assets		0.2		(1.2)
Changes in operating assets and liabilities	\$	3.0	\$	(1.0)

(a) Inclusive of an increase in the revenue deficiency account (use of cash) of \$0.4 million during the year ended December 31, 2020 (year ended December 31, 2019 – a decrease in the revenue deficiency account (source of cash) of \$6.8 million).

The following cash payments have been included in the determination of net income after taxes:

	2020		Year ended December 31 2019	
Interest paid	\$	25.8	\$	28.1
Income taxes paid (net of refunds)	\$	5.7	\$	1.7

## 23. SEGMENTED INFORMATION

The following describes the Company's three reporting segments:

<b>Renewable Energy</b>	– Includes the 102 MW Bear Mountain Wind Park, and an approximately 10 percent indirect equity investment in Coast LP, which indirectly owns and operates three run-of-river hydroelectric power generation assets in northwest British Columbia.
<b>Utilities</b>	– Includes the rate-regulated natural gas distribution assets in Alberta, British Columbia and Nova Scotia as well as an approximately 33.3 percent equity investment in Inuvik Gas Ltd.
<b>Corporate</b>	– Includes the cost of providing shared services, financial and general corporate support and corporate assets.

The following tables show the composition by segment:

	Year ended December 31, 2020				
	Utilities	Renewable Energy	Corporate	Intersegment Elimination	Total
Revenue	\$ 304.5	\$ 18.3	\$ —	\$ —	\$ 322.8
Cost of sales	(111.7)	(0.3)	—	—	(112.0)
Operating and administrative	(95.3)	(4.6)	(27.7)	—	(127.6)
Accretion expense	(0.1)	(0.1)	—	—	(0.2)
Depreciation and amortization	(29.4)	(7.3)	(0.1)	—	(36.8)
Income from equity investments	—	5.9	—	—	5.9
Ikhil Joint Venture asset provision	(1.4)	—	—	—	(1.4)
Unrealized loss on foreign exchange contracts	(0.7)	—	—	—	(0.7)
Other income	0.7	0.1	—	—	0.8
Foreign exchange loss	(0.1)	—	—	—	(0.1)
Operating income (loss)	\$ 66.5	\$ 12.0	\$ (27.8)	\$ —	\$ 50.7
Interest expense	(5.4)	—	(22.6)	—	(28.0)
Income (loss) before income taxes	\$ 61.1	\$ 12.0	\$ (50.4)	\$ —	\$ 22.7
Net additions (reductions) to:					
Property, plant and equipment <sup>(a)</sup>	\$ 67.5	\$ 0.2	\$ 0.1	\$ —	\$ 67.8
Intangible assets	\$ 10.9	\$ —	\$ —	\$ —	\$ 10.9

(a) Net additions to property, plant, and equipment, and intangible assets may not agree to changes reflected in the Consolidated Statement of Cash Flows due to classification differences.

	Year ended December 31, 2019				
	Utilities	Renewable Energy	Corporate	Intersegment Elimination	Total
Revenue	\$ 311.5	\$ 14.8	\$ —	\$ —	\$ 326.3
Cost of sales	(125.6)	(0.2)	—	—	(125.8)
Operating and administrative	(90.7)	(4.7)	(5.0)	—	(100.4)
Accretion expense	(0.1)	—	—	—	(0.1)
Depreciation and amortization	(24.5)	(7.2)	—	—	(31.7)
Income from equity investments	—	7.4	—	—	7.4
Unrealized loss on foreign exchange contracts	(2.2)	—	—	—	(2.2)
Other loss	(0.1)	—	—	—	(0.1)
Operating income (loss)	\$ 68.3	\$ 10.1	\$ (5.0)	\$ —	\$ 73.4
Interest expense	(3.8)	—	(23.1)	—	(26.9)
Income (loss) before income taxes	\$ 64.5	\$ 10.1	\$ (28.1)	\$ —	\$ 46.5
Net additions (reductions) to:					
Property, plant and equipment <sup>(a)</sup>	\$ 69.4	\$ —	\$ 0.3	\$ —	\$ 69.7
Intangible assets	\$ 6.8	\$ —	\$ 0.1	\$ —	\$ 6.9

(a) Net additions to property, plant, and equipment, and intangible assets may not agree to changes reflected in the Consolidated Statement of Cash Flows due to classification differences.

The following table shows goodwill and total assets by segment:

	Utilities	Renewable Energy	Corporate	Total
<b>As at December 31, 2020</b>				
Goodwill	\$ 119.1	\$ —	\$ —	\$ 119.1
Segmented assets	\$ 1,375.0	\$ 297.4	\$ (22.7)	\$ 1,649.7
<b>As at December 31, 2019</b>				
Goodwill	\$ 119.1	\$ —	\$ —	\$ 119.1
Segmented assets	\$ 1,276.6	\$ 262.4	\$ 43.3	\$ 1,582.3

#### 24. SUBSEQUENT EVENTS

Subsequent events have been reviewed through March 3, 2021, the date on which these consolidated financial statements were approved for issue by the Board of Directors. There were no subsequent events requiring disclosure or adjustment to the consolidated financial statements.