CU INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2022

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of CU Inc. (our, we, us, or the Company) during the three months ended March 31, 2022.

This MD&A was prepared as of April 27, 2022, and should be read with the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2022. Additional information, including the Company's previous MD&A (2021 MD&A), Annual Information Form (2021 AIF), and audited consolidated financial statements for the year ended December 31, 2021, is available on SEDAR at www.sedar.com. Information contained in the 2021 MD&A is not discussed in this MD&A if it remains substantially unchanged.

The Company is controlled by Canadian Utilities Limited (Canadian Utilities or CU), which in turn is controlled by ATCO Ltd. (ATCO) and its controlling share owner, Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

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

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UTILITIES PERFORMANCE

REVENUES

Revenues of $917 million in the first quarter of 2022 were $174 million higher compared to the same period in 2021. Higher 2022 revenues, largely in Electricity Distribution and Natural Gas Distribution, are a result of rate relief provided to customers in 2021 in light of the COVID-19 global pandemic and subsequently the AUC decision to maximize the collection of 2021 deferred revenues in 2022. Higher revenues are also due to higher flow-through revenues in Electricity Distribution and Natural Gas Distribution.

ADJUSTED EARNINGS

	Three Months Ended March 31		
($ millions)	**2022**	**2021**	**Change**
Electricity			
Electricity Distribution [1]	**47**	42	5
Electricity Transmission [1]	**43**	43	—
Total Electricity	**90**	85	5
Natural Gas			
Natural Gas Distribution [1]	**99**	81	18
Natural Gas Transmission [1]	**23**	19	4
Total Natural Gas	**122**	100	22
Corporate & Other and Intersegment Eliminations	**(1)**	(1)	—
Total Utilities [2]	**211**	184	27

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

(2) Additional information regarding this total of segments measure is provided in the Other Financial and Non-GAAP Measures section of this MD&A.

Utilities adjusted earnings of $211 million in the first quarter of 2022 were $27 million higher than the same period in 2021 mainly due to timing of operating costs, cost efficiencies, and growth in rate base.

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

Electricity Distribution

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

Electricity Distribution adjusted earnings of $47 million in the first quarter of 2022 were $5 million higher than the same period in 2021 mainly due to cost efficiencies.

Electricity Transmission

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

Electricity Transmission adjusted earnings of $43 million in the first quarter of 2022 were comparable to the same period in 2021.

Natural Gas Distribution

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

Natural Gas Distribution adjusted earnings of $99 million in the first quarter of 2022 were $18 million higher than the same period in 2021 mainly due to timing of operating costs in 2022 and 2021.

Natural Gas Transmission

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

Natural Gas Transmission adjusted earnings of $23 million in the first quarter of 2022 were $4 million higher than the same period in 2021. Higher adjusted earnings were mainly due to growth in rate base, including the acquisition of the Pioneer Pipeline which occurred in June 2021.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the first quarter of 2022 were comparable to the same period in 2021.

RECENT DEVELOPMENTS

Northland Utilities Enterprises Ltd. (NUE) Ownership Structure

On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in NUE from 14 per cent to 50 per cent. NUE is an electric utility company operating in the Northwest Territories, Canada and a subsidiary of ATCO Electric Ltd. The change in ownership interest was accomplished through DII's purchase of 36 per cent of the outstanding shares of NUE for a purchase price, net of cash disposed, of $8 million. The transaction results in ATCO Electric Ltd. and DII each having a 50 per cent ownership interest in NUE and highlights our continued commitment to foster community ownership and self-sustaining economic development.

REGULATORY DEVELOPMENTS

COMMON MATTERS

Generic Cost of Capital (GCOC)

On March 31, 2022, the AUC approved the extension of the current return on equity (ROE) of 8.5 per cent and equity thickness ratio of 37 per cent on a final basis for the 2023 period. By the third quarter of 2022, the AUC is expected to initiate a process for 2024 and beyond, including the potential establishment of a formula.

ELECTRICITY TRANSMISSION

Application of AUC Enforcement Staff for the Commencement of Proceeding Pursuant to Sections 8 and 63 of the *Alberta Utilities Commission Act*

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

The AUC enforcement branch and ATCO Electric Transmission commenced settlement discussions in January 2022. On March 18, 2022, the AUC enforcement branch and ATCO Electric Transmission concluded discussions and notified the AUC that the parties had reached a settlement on all matters. On April 14, 2022, the settlement was filed with the AUC, reflecting an agreed administrative penalty of $31 million, a commitment to amend the ongoing Deferral Account application to ensure the estimated $11 million of additional rate base remains excluded from customer rates, and the implementation of revised practices and policies. The AUC is currently determining the next process steps. In the fourth quarter of 2021 and first quarter of 2022, the Company recognized costs of $14 million and $27 million (after-tax), respectively, related to the potential outcome of the proceeding.

NATURAL GAS TRANSMISSION

Pioneer Pipeline Acquisition

In 2020, Natural Gas Transmission entered into an agreement to acquire the 131-km Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation. Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission transferred to Nova Gas Transmission Ltd. (NGTL) the 30-km segment of pipeline that is located in the NGTL footprint.

The transaction to acquire the Pioneer Pipeline closed in 2021. The transfer to NGTL received approval from the Canada Energy Regulator on December 22, 2021, and on February 25, 2022, Natural Gas Transmission completed the transfer to NGTL of the 30-km segment of pipeline located in the NGTL footprint for $63 million.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

Within the ATCO group of companies (including CU Inc.), we balance the short- and long-term economic, environmental and social considerations of our businesses while creating value for our customers, employees, share owner, and Indigenous and community partners. As a provider of essential services in diverse communities, we operate in an inclusive manner to meet the needs of society today and for generations to come while consistently delivering safe, reliable and affordable services.

The following section outlines commitments made by CU Inc.'s ultimate parent company, ATCO.

Sustainability Reporting and ESG Targets

ATCO's 2021 Sustainability Report focuses on the following material topics:

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

In January 2022, ATCO released their net zero by 2050 commitment as well as an initial set of 2030 ESG Targets. ATCO's Board of Directors recognizes and fully supports the net-zero commitment and 2030 targets, and agrees that these commitments and targets align with our strategic direction. More detailed information and progress towards these targets are found in the 2021 Sustainability Report. Achieving net zero by 2050 is a societal challenge that no individual, business, or government can solve on its own. It will require unprecedented collaboration among all constituents, as well as an informed, pragmatic, and affordable roadmap from policymakers to unlock the necessary scale and pace of private sector investment and expertise.

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

The 2021 Sustainability Report, Sustainability Framework Reference Document, Corporate Governance, materiality assessment, and additional details and other disclosures are available on our website at www.canadianutilities.com.

Climate Change and Energy Transition

To contribute to a net-zero future, CU Inc. continues to pursue initiatives to integrate cleaner fuels and renewable energy. This includes looking at ways to modernize our energy infrastructure to accommodate new and innovative sources of energy as well as ways to further use energy more efficiently. We are decarbonizing our operations and enabling our customers to transition to lower emitting sources of energy, while maintaining safety, reliability and affordability.

Canadian Net-Zero Emissions Accountability Act

As required under the *Canadian Net-Zero Emissions Accountability Act*, on March 29, 2022, the Government of Canada released the 2030 Emissions Reduction Plan: Canada's Next Steps for Clean Air and a Strong Economy. The plan outlines a sector-by-sector approach for Canada to reduce emissions by 40 per cent below 2005 levels by 2030, including $9.1 billion in new investments in electric vehicle charging infrastructure, homes and buildings, technology and cleaner fuels, renewable electricity, oil and gas, and farming. The plan also includes the development of the Clean Electricity Standard.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the first quarter of 2022 and 2021 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended March 31		
($ millions)	**2022**	**2021**	**Change**
Operating costs	**390**	346	44
Depreciation and amortization	**138**	133	5
Net finance costs	**92**	91	1
Income tax expense	**75**	40	35

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $44 million in the first quarter of 2022 compared to the same period in 2021. Higher operating costs were mainly due to higher flow-through costs, costs related to the AUC enforcement proceeding, and costs associated with the Workplace COVID-19 Vaccination Standard. These were partially offset by costs related to the early termination of the Master Services Agreement (MSA) with Wipro Ltd. for managed information technology (IT) services in 2021, and the 2022 gain on sale due to the change in ownership interest in NUE.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $5 million in the first quarter of 2022 compared to the same period in 2021 mainly due to the acquisition of the Pioneer Pipeline in the Natural Gas Transmission business in June 2021, and ongoing capital investment in the Alberta Utilities.

NET FINANCE COSTS

Net finance costs in the first quarter of 2022 were comparable to the same period in 2021.

INCOME TAX EXPENSE

Income taxes were higher by $35 million in the first quarter of 2022 compared to the same period in 2021 mainly due to increased IFRS earnings.

LIQUIDITY AND CAPITAL RESOURCES

Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations, debt and capital markets, and injections of equity from Canadian Utilities Limited. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

CREDIT RATINGS

	DBRS	S&P	Fitch
CU Inc.			
Issuer	A (high)	A-	A-
Senior unsecured debt	A (high)	A-	A
Commercial paper	R-1 (low)	A-1 (low)	F2
Preferred shares	PFD-2 (high)	P-2	BBB+

On March 2, 2022, S&P Global Ratings affirmed CU Inc.'s 'A-' issuer credit rating and stable outlook.

On March 17, 2022, Fitch Ratings assigned a first-time issuer rating of 'A-' with a stable outlook to CU Inc.

LINES OF CREDIT

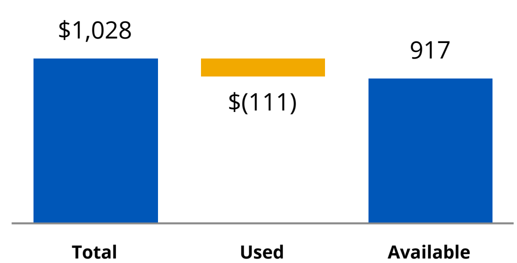
At March 31, 2022, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	Total	Used	Available
Long-term committed	**900**	52	848
Uncommitted	**128**	59	69
Total	**1,028**	111	917

Of the $1,028 million in total lines of credit, $128 million was in the form of uncommitted credit facilities with no set maturity date.

The other $900 million in credit lines was committed, with maturities between 2023 and 2024, and may be extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.

Lines of Credit ($ millions)



CONSOLIDATED CASH FLOW

At March 31, 2022, the Company's cash position was $326 million, an increase of $274 million compared to December 31, 2021 mainly due to cash generated from operations and the closing of a transaction to transfer a 30-km segment of the Pioneer Natural Gas Pipeline to NGTL, partially offset by cash used to fund the capital investment program and payments of debt and interest.

Cash Flows from Operating Activities

Cash flows from operating activities of $620 million in the first quarter of 2022 were $147 million higher than the same period in 2021. The increase was mainly due to higher cash flows from the recovery of the 2021 deferral of rate increases, and timing of certain revenue and expenses.

Cash Used for Capital Expenditures

Cash used for capital expenditures was $198 million in the first quarter of 2022, $6 million lower compared to the same period in 2021 mainly due to the completion of construction of the Calgary Northwest Connector in 2021 in the Natural Gas Transmission business, partially offset by increased customer contributions related to ongoing projects.

Capital expenditures for the first quarter of 2022 and 2021 is shown in the table below.

	Three Months Ended March 31		
($ millions)	**2022**	**2021**	**Change**
Electricity Distribution	**51**	54	(3)
Electricity Transmission	**70**	34	36
Natural Gas Distribution	**58**	56	2
Natural Gas Transmission	**19**	60	(41)
Total (1) (2)	**198**	204	(6)

(1) Includes additions to property, plant and equipment, intangibles, and $2 million (2021 - $3 million) of capitalized interest during construction for the first quarter of 2022.

(2) Includes $42 million for the first quarter of 2022 (2021 - $52 million) of capital expenditures that were funded with the assistance of customer contributions.

Base Shelf Prospectus - CU Inc. Debentures

On September 16, 2020, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.2 billion of debentures over the 25-month life of the prospectus. As of April 27, 2022, aggregate issuances of debentures were $610 million.

Subsequent Event

On April 1, 2022, CU Inc. repaid $125 million of 9.92 per cent debentures.

SHARE CAPITAL

CU Inc. equity securities consist of Class A shares and Class B shares.

At April 26, 2022, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended June 30, 2020 through March 31, 2022.

($ millions)	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Revenues	631	623	826	**917**
Earnings for the period	61	61	132	**222**
Adjusted earnings (loss)				
Electricity	73	73	72	**90**
Natural Gas	28	3	92	**122**
Corporate & Other and Intersegment Eliminations	(1)	(1)	—	**(1)**
Total adjusted earnings (1)	100	75	164	**211**

($ millions)	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Revenues	636	601	739	743
Earnings for the period	80	77	95	133
Adjusted earnings (loss)				
Electricity	78	70	79	85
Natural Gas	26	4	101	100
Corporate & Other and Intersegment Eliminations	(2)	(1)	(1)	(1)
Total adjusted earnings (1)	102	73	179	184

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

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

ADJUSTED EARNINGS

Adjusted earnings in the second and third quarters of each year were impacted by lower seasonal demand in the Natural Gas Distribution business. Adjusted earnings in the first quarter of 2022 were higher than the same period in 2021 mainly due to timing of operating costs, cost efficiencies, and growth in rate base.

EARNINGS FOR THE PERIOD

Earnings include timing adjustments related to rate-regulated activities. They also include one-time gains and losses, impairments, dividends on equity preferred shares and other items that are not in the normal course of business or a result of day-to-day operations recorded at various times over the past eight quarters. These items are excluded from adjusted earnings and are highlighted below:

- Early Termination of the Master Service Agreements for Managed IT Services
  - In 2020, the Company's parent, Canadian Utilities Limited, signed an MSA with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) (IBM) to provide managed IT services. These services were previously provided by Wipro under a ten-year MSA expiring in December 2024. The Company recognized termination costs of $52 million (after-tax) in the fourth quarter of 2020, which represents management's best estimate of the costs to exit the Wipro MSAs.
  - The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and was completed by December 31, 2021. The Company recognized transition costs of $6 million (after-tax), during the three months ended March 31, 2021.
- AUC Enforcement Proceeding
  - In the fourth quarter of 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. A proceeding was commenced to

determine whether ATCO Electric failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to a sole source contract for the Jasper interconnection project and the actions leading up to and including the filing of the 2018-2020 Deferral Account Application. The proceeding also includes a determination of any future remedies that may be required.

  - The AUC Enforcement branch and ATCO Electric Transmission reached a settlement agreement and on April 14, 2022, filed the settlement with the AUC. The AUC is in the process of determining the next steps. In the fourth quarter of 2021 and first quarter of 2022, the Company recognized costs of $14 million and $27 million (after-tax), respectively, related to the potential outcome of the proceeding.

- Workplace COVID-19 Vaccination Standard
  - Effective January 1, 2022, the Company required its employees, subject to certain exemptions, to be vaccinated against COVID-19 to safeguard the health and safety of employees, business partners, customers and communities. Employees who did not demonstrate they were vaccinated or did not have an approved exemption were placed on unpaid leave and were subsequently offered severance. In the first quarter of 2022, the Company incurred $8 million (after-tax) in severance and related costs associated with the Workplace COVID-19 vaccination standard.
- Gain on sale of ownership interest in a subsidiary company
  - On March 31, 2022, the Company and DII entered into a share purchase agreement to increase DII's ownership interest in NUE from 14 per cent to 50 per cent. The transaction resulted in a gain on sale of $5 million (after-tax). Effective March 31, 2022, the Company no longer consolidates NUE as a controlled subsidiary, and instead, accounts for its interest in NUE as an investment in joint venture using the equity method.

OTHER FINANCIAL AND NON-GAAP MEASURES

Other financial measures presented in this MD&A consist of:

1. Adjusted earnings which are a key measure of segment earnings that are used to assess segment performance and allocate resources; and
2. Total of segments measures, which are defined as financial measures disclosed by an issuer that are a subtotal or total of two or more reportable segments.

Adjusted earnings are defined as earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the US accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings for the period is presented in this MD&A. Adjusted earnings are presented in Note 3 of the unaudited interim consolidated financial statements.

Adjusted earnings are most directly comparable to earnings for the period but is not a standardized financial measure under the reporting framework used to prepare our financial statements. Adjusted earnings may not be comparable to similar financial measures disclosed by other issuers. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. For investors, adjusted earnings may provide value as they exclude items that are not in the normal course of business and, as such, provide insight as to earnings resulting from the issuer's usual course of business. A reconciliation of adjusted earnings to earnings for the period of the Company is presented in this MD&A.

Total of segments measures are most directly comparable to total earnings for the period. Comparable total of segments measures for the same period in 2021 have been calculated using the same composition and are disclosed alongside the current total of segments measures in this MD&A. A reconciliation of the total of segments measures with total earnings for the period is presented in this MD&A.

Non-GAAP financial measures presented in this MD&A are defined as financial measures disclosed by an issuer that are not disclosed in the financial statements.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

Adjusted earnings are earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, impairments, and items that are not in the normal course of business or a result of day-to-day operations.

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada than IFRS earnings. Additional information regarding this measure is provided in the Other Financial and Non-GAAP Measures section of this MD&A.

($ millions)					Three Months Ended March 31
2022 2021	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**393**	**525**	**—**	**(1)**	**917**
	334	410	—	(1)	743
Adjusted earnings (loss)	**90**	**122**	**(1)**	**—**	**211**
	85	100	(1)	—	184
Rate-regulated activities	**14**	**29**	**—**	**—**	**43**
	(24)	(20)	—	—	(44)
IT Common Matters decision	**(2)**	**(2)**	**—**	**—**	**(4)**
	(2)	(2)	—	—	(4)
Transition of managed IT services	**—**	**—**	**—**	**—**	**—**
	(3)	(3)	—	—	(6)
Dividends on equity preferred shares of the Company	**1**	**1**	**—**	**—**	**2**
	2	1	—	—	3
AUC enforcement proceeding	**(27)**	**—**	**—**	**—**	**(27)**
	—	—	—	—	—
Workplace COVID-19 vaccination standard	**(3)**	**(5)**	**—**	**—**	**(8)**
	—	—	—	—	—
Gain on sale of ownership interest in a subsidiary company	**5**	**—**	**—**	**—**	**5**
	—	—	—	—	—
Earnings (loss) for the period	**78**	**145**	**(1)**	**—**	**222**
	58	76	(1)	—	133

RATE-REGULATED ACTIVITIES

Electricity Distribution and Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as Natural Gas Distribution and Natural Gas Transmission are collectively referred to as the Utilities.

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

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

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

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

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

	Three Months Ended March 31		
($ millions)	**2022**	**2021**	**Change**
Additional revenues billed in current period			
Future removal and site restoration costs [1]	**31**	29	2
Revenues to be billed in future periods			
Deferred income taxes [2]	**(22)**	(25)	3
Distribution rate relief [3]	**—**	(41)	41
Impact of warmer temperatures [4]	**(6)**	(2)	(4)
Settlement of regulatory decisions and other items			
Distribution rate relief [3]	**35**	—	35
Other	**5**	(5)	10
	43	(44)	87

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

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

(3) In the first quarter of 2021, Electricity Distribution and Natural Gas Distribution recorded a decrease of earnings of $41 million (after tax) related to interim rate relief for customers as applied for by the company and approved by the AUC to hold current distribution base rates in place. In the first quarter of 2022, $35 million (after tax) was billed to customers based on direction from the AUC to maximize recoveries in 2022.

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

IT COMMON MATTERS DECISION

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amounts excluded from adjusted earnings for the three months ended March 31, 2022 was $4 million (after-tax) (2021 - $4 million).

TRANSITION OF MANAGED IT SERVICES

In the fourth quarter of 2020, the Company's parent, Canadian Utilities Limited, signed an MSA with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) to provide managed IT services. These services were previously provided by Wipro under a ten-year MSA expiring in December 2024. The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and was completed in the fourth quarter of 2021.

In the first quarter of 2021, the Company recognized termination and transition costs of $6 million (after-tax).

AUC ENFORCEMENT PROCEEDING

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

The AUC enforcement branch and ATCO Electric Transmission commenced settlement discussions in January 2022. On March 18, 2022, the AUC enforcement branch and ATCO Electric Transmission concluded discussions and notified the AUC that the parties had reached a settlement on all matters. On April 14, 2022, the settlement was filed with the AUC, reflecting an agreed administrative penalty of $31 million, a commitment to amend the ongoing Deferral Account application to ensure the estimated $11 million of additional rate base remains excluded from customer rates, and the implementation of revised practices and policies. The AUC is currently determining the next process steps. In the fourth quarter of 2021 and first quarter of 2022, the Company recognized costs of $14 million and $27 million (after-tax), respectively, related to the potential outcome of the proceeding.

WORKPLACE COVID-19 VACCINATION STANDARD

To safeguard the health and safety of employees, business partners, customers and communities, the Company required its employees, subject to certain exemptions, to be vaccinated against COVID-19 effective January 1, 2022. Employees who did not demonstrate they were vaccinated or did not have an approved exemption were placed on unpaid leave and were subsequently offered severance. In the three months ended March 31, 2022, the Company incurred $8 million (after-tax) in severance and related costs associated with the Workplace COVID-19 vaccination standard.

GAIN ON SALE OF OWNERSHIP INTEREST IN A SUBSIDIARY COMPANY

On March 31, 2022, the Company and DII entered into a share purchase agreement to increase DII's ownership interest in NUE from 14 per cent to 50 per cent. The transaction resulted in a gain on sale of $5 million (after-tax). Effective March 31, 2022, the Company no longer consolidates NUE as a controlled subsidiary, and instead, accounts for its interest in NUE as an investment in joint venture using the equity method.

The following table reconciles adjusted earnings for the Utilities to the directly comparable financial measure, earnings for the period.

($ millions)	Three Months Ended March 31						
2022	CU Inc.						
2021	Electricity			Natural Gas			**Consolidated**
	Electric Distribution	**Electric Transmission**	**Consolidated Electricity**	**Natural Gas Distribution**	**Natural Gas Transmission**	**Consolidated Natural Gas**	
Adjusted earnings	**47**	**43**	**90**	**99**	**23**	**122**	**212**
	42	43	85	81	19	100	185
Rate-regulated activities	**1**	**13**	**14**	**27**	**2**	**29**	**43**
	(27)	3	(24)	(18)	(2)	(20)	(44)
IT Common Matters decision	**(1)**	**(1)**	**(2)**	**(1)**	**(1)**	**(2)**	**(4)**
	(1)	(1)	(2)	(1)	(1)	(2)	(4)
Transition of managed IT services	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	(2)	(1)	(3)	(2)	(1)	(3)	(6)
Dividends on equity preferred shares of the Company	**—**	**1**	**1**	**1**	**—**	**1**	**2**
	1	1	2	1	—	1	3
AUC enforcement proceeding	**—**	**(27)**	**(27)**	**—**	**—**	**—**	**(27)**
	—	—	—	—	—	—	—
Workplace COVID-19 vaccination standard	**(2)**	**(1)**	**(3)**	**(3)**	**(2)**	**(5)**	**(8)**
	—	—	—	—	—	—	—
Gain on sale of ownership interest in a subsidiary company	**5**	**—**	**5**	**—**	**—**	**—**	**5**
	—	—	—	—	—	—	—
Earnings for the period	**50**	**28**	**78**	**123**	**22**	**145**	**223**
	13	45	58	61	15	76	134

OTHER FINANCIAL INFORMATION

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company’s internal control over financial reporting that occurred during the period beginning on January 1, 2022, and ended on March 31, 2022, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", "goals", "targets", "strategy", "future", and similar expressions. In particular, forward-looking information in this MD&A includes, but is not limited to, references to general strategic plans and targets, including with respect to reducing GHG emissions and meeting certain environmental, social and governance targets; the AUC's determination of next process steps with respect to the settlement filed on April 14, 2022; and the expectation and timing of an AUC initiated process to evaluate GCOC related formulas.

Although the Company believes that the expectations reflected in the forward-looking information are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and no assurance can be given that these expectations will prove to be correct. Forward-looking information should not be unduly relied upon. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors, which may cause actual results, levels of activity, and achievements to differ materially from those anticipated in such forward-looking information. The forward-looking information reflects the Company's beliefs and assumptions with respect to, among other things, the Company's ability to successfully achieve its net-zero GHG target by 2050; the development and performance of technology and technological innovations and the ability to otherwise access and implement all technology necessary to achieve GHG and other environmental, social and governance targets; continuing collaboration with certain regulatory and environmental groups; the performance of assets and equipment; demand levels for oil, natural gas, gasoline, diesel and other energy sources; certain levels of future energy use; future production rates; future revenue and earnings; the ability to meet current project schedules, and other assumptions inherent in management's expectations in respect of the forward-looking information identified herein.

The Company's actual results could differ materially from those anticipated in this forward-looking information as a result of, among other things, risks inherent in the performance of assets; capital efficiencies and cost savings; applicable laws and government policies; regulatory decisions; competitive factors in the industries in which the Company operates; prevailing economic conditions (including as may be affected by the COVID-19 pandemic); credit risk; interest rate fluctuations; the availability and cost of labour, materials, services, and infrastructure; the development and execution of projects; prices of electricity, natural gas, natural gas liquids, and renewable energy; the development and performance of technology and new energy efficient products, services, and programs including but not limited to the use of zero-emission and renewable fuels, carbon capture, and storage, electrification of equipment powered by zero-emission energy sources and utilization and availability of carbon offsets; the occurrence of unexpected events such as fires, severe weather conditions, explosions, blow-outs, equipment failures, transportation incidents, and other accidents or similar events; and other risk factors, many of which are beyond the control of the Company. Due to the interdependencies and correlation of these factors, the impact of any one material assumption or risk on a forward-looking statement cannot be determined with certainty. Readers are cautioned that the foregoing lists are not exhaustive. For additional information about the principal risks that the Company faces, see “Business Risks and Risk Management” in the Company's Management's Discussion and Analysis for the year ended December 31, 2021.

This MD&A may contain information that constitutes future-oriented financial information or financial outlook information, all of which are subject to the same assumptions, risk factors, limitations and qualifications set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on such future-oriented financial information or financial outlook information. The

Company's actual results, performance and achievements could differ materially from those expressed in, or implied by, such future-oriented financial information or financial outlook information. The Company has included such information in order to provide readers with a more complete perspective on its future operations and its current expectations relating to its future performance. Such information may not be appropriate for other purposes and readers are cautioned that such information should not be used for purposes other than those for which it has been disclosed herein. Future-oriented financial information or financial outlook information contained herein was made as of the date of this MD&A.

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

ADDITIONAL INFORMATION

CU Inc. has published its unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 2022. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, or email investorrelations@atco.com.

GLOSSARY

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

AUC means the Alberta Utilities Commission.

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

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

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

Company means CU Inc. and, unless the context otherwise requires, includes its subsidiaries.

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

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

IFRS means International Financial Reporting Standards.