CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2023

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 year ended December 31, 2023.

This MD&A was prepared as of February 28, 2024, and should be read with the Company's audited consolidated financial statements (2023 Consolidated Financial Statements) for the year ended December 31, 2023. Additional information, including the Annual Information Form (2023 AIF) that will be filed on March 28, 2024, is available on SEDAR+ at www.sedarplus.ca.

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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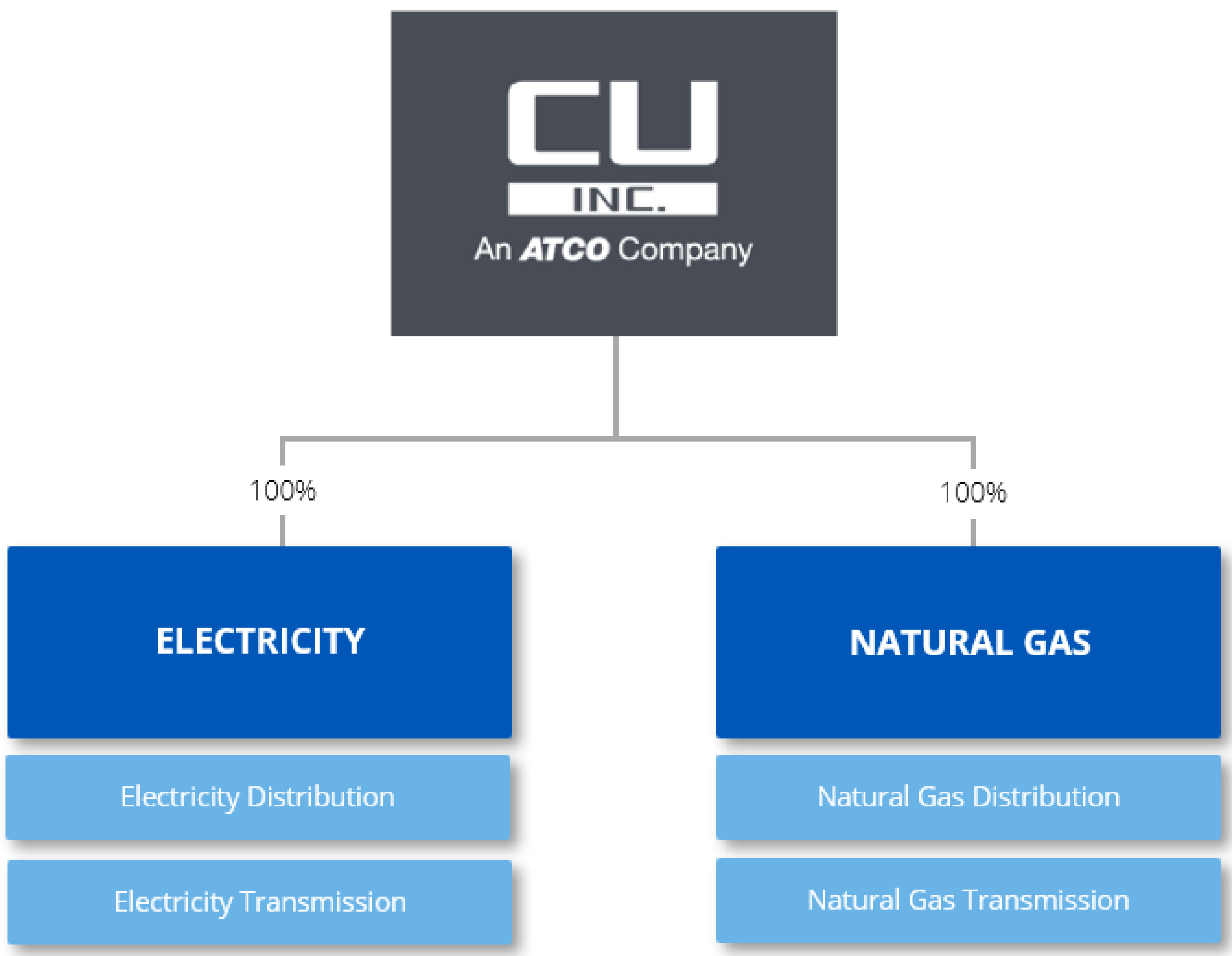
OUR COMPANY

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 3,850 employees and assets of $19 billion comprised of rate-regulated utility operations in electricity and natural gas distribution and transmission. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

THE UTILITIES

The Company's activities are conducted through regulated businesses in two Business Units within western and northern Canada: Electricity, which includes Electricity Distribution and Electricity Transmission, and Natural Gas, which includes Natural Gas Distribution and Natural Gas Transmission.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



The 2023 Consolidated Financial Statements include the accounts of CU Inc. and all of its subsidiaries. The 2023 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar.

OUR BUSINESSES

The Company's activities are conducted through regulated businesses in two Business Units within western and northern Canada: Electricity, which includes Electricity Distribution and Electricity Transmission, and Natural Gas, which includes Natural Gas Distribution and Natural Gas Transmission.

ELECTRICITY

FAST FACTS

75,000 KM **Powerlines Owns and Operates**	**263,880** **Average monthly customers in 2023**	**25** **Electric vehicle (EV) fast charging stations installed**

Our Electricity business unit is comprised of two regulated business units; Electricity Distribution and Electricity Transmission.

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 Transmission provides 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.

NATURAL GAS

FAST FACTS

65,600 KM **Pipelines Owns and Operates**	**1,290,412** **Average monthly customers in 2023**	**100+** **Years of operations**

Our Natural Gas business unit is comprised of two regulated business units; Natural Gas Distribution and Natural Gas Transmission.

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

OUR PATH TO 2030

CREATING PROSPERITY AND OPPORTUNITY FOR GENERATIONS TO COME

CU Inc. is committed to a bold and extraordinary future for our companies and our share owner. We play a key role in supporting ATCO, our ultimate parent company, in achieving its 2030 environmental, social and governance (ESG) targets, and together, our companies are charting a course towards 2030 with an ambitious set of objectives and targets that will create a fully energized and integrated path forward in our ever-changing world.

Incorporating our Core Values

Our actions reflect our core values of safety, integrity, agility, caring, and collaboration. These foundational principles guide us as we balance the short- and long-term economic, environmental and social considerations of our businesses.

Committed to the sustainable future

CU Inc.'s sustainability strategy has always been driven by a pragmatic, long-term perspective, one that prioritizes our sustainability objectives and ESG performance while safely and reliably delivering affordable products and services to our customers, each and every day.

We continue to make strong progress towards our ESG targets announced by our ultimate parent company, ATCO, in 2022. These 2030 targets include reducing our operational Greenhouse Gas Emissions (GHG) intensity and customer emissions, increasing economic benefits for Indigenous partners, continuing our focus on safety, and further promoting diversity, equity and inclusion in the workplace. ATCO continues to evaluate further ESG targets and conduct additional analyses with respect to the Company's 2050 net-zero aspiration.

Details about our progress towards these targets is discussed in this MD&A's "Sustainability, Climate Change and Energy Transition" section and in ATCO's annual Sustainability Report, which will be available in May 2024.

CU INC. STRATEGIES

At the heart of CU Inc.’s strategy is the desire to be a unified provider of energy, an essential service for our customers. Energy is one of life's essential services. Without safe, reliable, resilient and affordable access to energy, prosperity and opportunity cannot thrive. Essential services, like energy, are resilient to macroeconomic headwinds, geopolitical conflict and natural disasters and are a significant driver of economic growth in the jurisdictions we operate.

CU Inc. has built a strong foundation for continued growth by building and protecting our core utility assets while delivering essential energy. We do this through safely delivering reliable and affordable energy, responsibly leading an equitable energy transition, investing to serve the growing and changing needs of our customers, and being a trusted partner committed to long-term mutual prosperity.

Our businesses also continue to pursue diversification opportunities and/or expansion of product offerings through the evaluation of new technologies, non-traditional markets, and integrated services. We also seek opportunities to create equitable partnerships with local and indigenous communities in areas we operate to create value for all parties.

STRATEGIC TENETS

Valuing a long-term outlook.

Building on our core utility businesses.

Taking a leadership role in the energy transition.

Building equitable partnerships with Indigenous communities.

Collaborating for the betterment of communities.

Supporting the talent and diversity of the CU Inc. team.

CAPITAL EXPENDITURE PLANS

The three year capital expenditure plan includes $3.8 to $4.5 billion of planned capital spending in regulated utility capital growth projects. This investment will serve the evolving needs of our customers and support population and business growth, system reliability and safety, climate resiliency and adaptation, decarbonization, and technology to further improve operating efficiencies. To achieve the upper end of the expenditure range, certain regulatory applications will need to be made and approved in 2024, the most significant of which will relate to expansion of the natural gas transmission system in support of increasing natural gas demand in the Heartland Industrial region. This three year capital spending plan includes $1.0 to $1.2 billion relating to Electricity Distribution, $0.8 to $0.9 billion to Electricity Transmission, $1.0 to $1.1 billion to Natural Gas Distribution, and $1.0 to $1.3 billion to Natural Gas Transmission.

Mid-year rate base is equal to the total net capital investment less depreciation. Growth in mid-year rate base is a leading indicator of a utility's earnings trend, depending on changes in the equity ratio of the mid-year rate base and the rate of return on common equity. The three year plan includes expected rate base growth of 3 per cent to 4 per cent, with expected rate base growth of 4 per cent to 5 per cent over a longer term.

Mid-Year Rate Base Growth (C$ Billions)

(billions)	2023	2026E	Three Year CAGR [(1)]
Electricity Distribution	3.2	3.5 to 3.8	3.0% to 5.9%
Electricity Transmission	5.1	5.3	1.3%
Natural Gas Distribution	3.1	3.3 to 3.4	2.1% to 3.1%
Natural Gas Transmission	2.6	2.9 to 3.2	5.1% to 8.6%
Total	**14.0**	**15.0 to 15.7**	**2.6% to 4.1%**

(1) CAGR means compound annual growth rate.

UTILITIES PERFORMANCE

REVENUES

Revenues of $783 million and $2,931 million in the fourth quarter and full year of 2023 were $54 million and $220 million lower compared to the same periods in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation Performance Based Regulation (PBR) term now being passed onto customers under the 2023 Cost of Service (COS) rebasing framework, and the Alberta Utilities Commission (AUC) decision to maximize the collection of 2021 deferred revenues in 2022 as a result of rate relief provided to customers in 2021. In addition, Electricity Transmission revenues were lower due to the settlement of the 2018-2021 Deferral Application as well as the settlement of the 2023-2025 General Tariff Application which reflects ceased collection and a refund of previously collected federal deferred income taxes. These actions do not significantly impact adjusted earnings, however, they will reduce revenues and cash flows from 2023 to 2025, providing rate relief to customers. Lower revenues were partially offset by higher flow-through revenues in Electricity Distribution, growth in rate base in Natural Gas Distribution and Natural Gas Transmission.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Electricity						
Electricity Distribution [1]	**47**	33	14	**150**	161	(11)
Electricity Transmission [1]	**36**	37	(1)	**162**	165	(3)
Total Electricity [1]	**83**	70	13	**312**	326	(14)
Natural Gas						
Natural Gas Distribution [1]	**62**	63	(1)	**120**	158	(38)
Natural Gas Transmission [1]	**22**	20	2	**91**	88	3
Total Natural Gas [1]	**84**	83	1	**211**	246	(35)
Corporate & Other and Intersegment Eliminations [1]	**—**	(2)	2	**(1)**	(4)	3
Total Utilities [2]	**167**	151	16	**522**	568	(46)

(1) Non-GAAP financial measures. See “Other Financial and Non-GAAP Measures” and “Reconciliation of Adjusted Earnings to Earnings for the Period" (as defined in NI 52-112) in this MD&A.

(2) Total of segments measure. See “Other Financial and Non-GAAP Measures” and “Reconciliation of Adjusted Earnings to Earnings for the Period" (as defined in NI 52-112) in this MD&A.

Utilities adjusted earnings of $167 million in the fourth quarter of 2023 were $16 million higher than the same period in 2022 mainly due to growth in rate base and new cost efficiencies realized in 2023 in Electricity Distribution and Natural Gas Distribution.

Utilities adjusted earnings of $522 million in the full year of 2023 were $46 million lower than the same period in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. Lower earnings were partially offset by growth in rate base and new cost efficiencies and lower operating costs realized in 2023 in Electricity Distribution and Natural Gas Distribution.

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 fourth quarter of 2023 were $14 million higher than the same period in 2022 mainly due to new cost efficiencies realized in 2023.

Electricity Distribution adjusted earnings of $150 million in the full year of 2023 were $11 million lower than the same period in 2022 mainly due to cost efficiencies generated over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework, partially offset by new cost efficiencies realized in 2023 and growth in rate base.

Electricity Transmission

Electricity Transmission provides 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 $36 million in the fourth quarter of 2023 were comparable to the same period in 2022.

Electricity Transmission adjusted earnings of $162 million in the full year of 2023 were $3 million lower compared to the same period in 2022 mainly due to the second quarter decision received from the AUC on the 2018-2021 Deferral Application, which denied recovery of forgone return related to certain cancelled projects.

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 $62 million and $120 million in the fourth quarter and full year of 2023 were $1 million and $38 million lower than the same periods in 2022 mainly due to cost efficiencies generated over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. Lower earnings were partially offset by growth in rate base and lower operating costs in the fourth quarter.

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 $22 million and $91 million in the fourth quarter and full year of 2023 were $2 million and $3 million higher than the same periods in 2022 mainly due to growth in rate base.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the fourth quarter and full year of 2023 were $2 million and $3 million higher than the same periods in 2022 mainly due to the timing of certain expenses.

REGULATORY INFORMATION

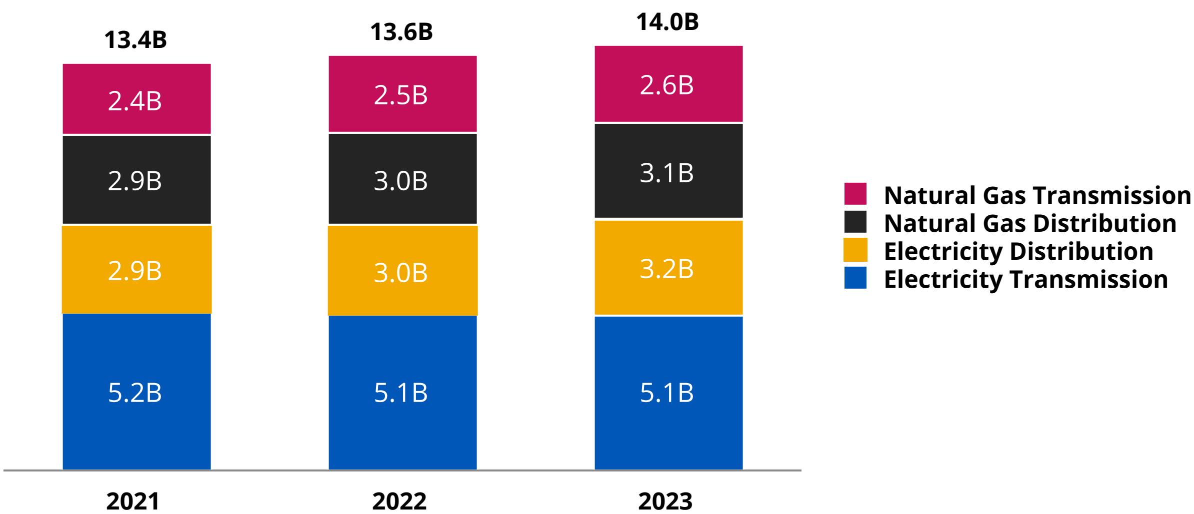
REGULATED BUSINESS MODELS

The business operations of Electricity Distribution, Electricity Transmission, Natural Gas Distribution, and Natural Gas Transmission are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

Natural Gas Transmission and Electricity Transmission operate under COS regulation. Under this model, the regulator establishes the revenues to provide for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as mid-year rate base. Growth in mid-year rate base is a leading indicator of the business' earnings trend, depending on changes in the approved equity component of the mid-year rate base and the rate of return on common equity.

Natural Gas Distribution and Electricity Distribution operate under PBR. Under PBR, revenue is determined by a formula that adjusts customer rates for inflation less an estimated amount for productivity improvements. The AUC reviews the utilities' results annually to ensure the rate of return on common equity is within certain upper and lower boundaries. To complete these calculations, the AUC uses mid-year rate base. For this reason, growth in mid-year rate base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs based on approved going-in rates and on the formula that adjusts rates for inflation and productivity improvements.

Utilities Mid-Year Rate Base ($ Billions)



PERFORMANCE BASED REGULATION

After the conclusion of the second generation PBR term (PBR2) in 2022, and following a one-year COS rebasing in 2023, the Natural Gas Distribution and Electricity Distribution businesses moved to a third generation of performance-based regulation (PBR3) for the years 2024 to 2028.

On October 4, 2023, the AUC issued its decision on the parameters of the PBR3 plans that will set rates for the distribution utilities for the years 2024 to 2028. AUC has approved continuation of the incremental capital funding mechanism based on historical five years of actual capital spend as well as the ability to seek additional funding for capital that meets certain eligibility criteria. The AUC also introduced a new productivity factor premium and an asymmetric, two-tiered Earnings Sharing Mechanism.

	PBR Third Generation
Timeframe	2024 to 2028
Inflation Adjuster (I Factor)	Inflation indices (FWI and CPI) adjusted annually with a true up applied
Productivity Adjuster (X Factor)	0.40% (includes 0.3% for productivity factor premium)
O&M	Based on 2023 approved COS Applications; inflated by I-X through the PBR term
Return on Operating Cost Investment	Ability to apply for return on operating solutions
Treatment of Capital Costs	a. Recovered through going-in rates inflated for I-X and a K Bar (the AUC allowance for capital additions under PBR) that is based on inflation adjusted average historical capital costs for the period 2018-2022. The K Bar is calculated annually and adjusted for the actual weighted average cost of capital (WACC) b. Significant extraordinary capital costs not previously incurred, required by a third party or directly caused by applicable law related to net-zero objectives recovered through a "Type I" K Factor
Return On Equity (ROE)	a. Based on the established Generic Cost of Capital (GCOC) formula (results released November of each year) b. + 0.5% ROE efficiency carry-over mechanism (ECM) achieved from PBR Second Generation added to 2023 and 2024
Earnings Sharing Mechanism (ESM)	Two-tiered, asymmetric ESM; • the utilities retain 100% of the first 200 bps of earnings above the authorized ROE • a 60/40 utility/customer split for the next 200 bps of earnings, and • a 20/80 utility/customer split for any earnings over 400 bps
Reopener	- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
ROE Used for Reopener Calculation	• 2024: Based on the GCOC formula excluding impact of ECM • 2025-2028: Based on the GCOC formula
Quantification and Tracking of Efficiencies	Utility must report a select set of operational metrics annually to the AUC

REGULATORY UPDATES

COMMON MATTERS

Generic Cost of Capital (GCOC) Proceeding

On October 9, 2023, the AUC issued its decision with respect to the GCOC parameters for 2024 and beyond. The AUC has approved the use of a formula for setting ROE rates and set the equity thickness at 37 per cent for Alberta Utilities.

The established starting point ROE, which will serve as the base in the annual formula, is set at 9 per cent and the formula will take into account two variables; changes in 30-year Government of Canada Bond Yields and changes in utility spreads. The AUC will update the ROE annually and issue the following year's ROE in November of the current year. On November 20, 2023, the AUC issued its decision with respect to the 2024 ROE with the rate being set at 9.28 per cent.

Second Generation Performance Based Regulation Reopeners

On June 30, 2023, the AUC initiated a proceeding for Electricity Distribution and Natural Gas Distribution as the reopener clause was triggered by both utilities in 2022, the final year of the PBR2. The PBR2 reopener thresholds were triggered if a utility's earnings are +/- 500 basis points from the approved ROE in one year or +/- 300 basis points from the approved ROE in two consecutive years. In this proceeding, the AUC will determine whether a reopener and any adjustment of Electricity Distribution and Natural Gas Distribution's 2018 to 2022 plans are required. ATCO Gas and ATCO Electric were the only utilities in Alberta to lower rates in 2023 due to efficiencies being passed onto to customers.

Similar to the first generation of PBR, the increase in earnings in the second generation of PBR was a direct result of management's response to the incentive to implement efficiency improvements and not due to a flaw in the PBR framework.

ELECTRICITY DISTRIBUTION

Alberta Court of Appeal ATCO Electric Distribution Fort McMurray Wildfire Decision

The Alberta Court of Appeal issued a favourable decision in the second quarter of 2023 in connection with the Fort McMurray (Wood Buffalo) wildfire, which resulted in the AUC issuing its decision in December 2023 permitting ATCO Electric to include the net book value of its electric distribution assets destroyed in the Wood Buffalo fire within rate base.

The AUC accepted that, in the circumstances of the Wood Buffalo fire, isolating and directing the removal of the entirety of the net book value of the destroyed assets had the effect of rescinding the reasonable opportunity previously afforded to ATCO Electric to recover these costs, and did so for reasons beyond ATCO Electric's control. As a result, permitting recovery of the costs results in a just and reasonable tariff.

In addition to the reversal of the original disallowance of $3 million recognized in the second quarter of 2019, ATCO Electric will be recovering the lost return and associated carrying costs from 2018-2023 of $2 million in 2024.

ELECTRICITY TRANSMISSION

ATCO Electric Transmission 2018-2021 Deferral Application

On April 26, 2023, the AUC issued a decision regarding ATCO Electric's 2018–2021 Deferral Application for the disposal of its 2018–2021 transmission deferral accounts and annual filing adjustment balances. While the decision received from the AUC denied recovery of forgone return related to certain cancelled projects and some capital additions, it approved the majority of additions to rate base.

ATCO Electric Transmission 2023-2025 General Tariff Application (GTA)

On May 19, 2022, ATCO Electric Transmission filed a GTA for its operations for the 2023-2025 period. A comprehensive negotiated settlement was reached in December 2022 with all of the participating interveners and an application was filed with the AUC in January 2023. On May 5, 2023, the AUC approved the negotiated settlement agreement in its entirety.

NATURAL GAS TRANSMISSION

2024 - 2026 General Rate Application (GRA)

On July 31, 2023 ATCO Pipelines filed a GRA requesting approval of revenue requirements related to operational and maintenance costs as well as capital expenditures needed over the 2024-2026 period. A comprehensive negotiated settlement was reached with all participating interveners in December 2023 and was filed with the AUC on January 5, 2024. The GRA also requested new deferral accounts which will be reviewed and litigated through a separate process. A decision from the AUC is expected in the second quarter of 2024.

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

Our 2023 Sustainability Report, to be published in May 2024, focuses on the following material topics:

- Energy Transition and Environment - energy transition and climate change, GHG emissions, and land use and biodiversity;
- Resilience and Safety - system reliability and availability, emergency preparedness and response, employee safety and well-being, public health and safety, and cybersecurity;
- People and Partners - Indigenous relations, economic opportunities and reconciliation, community engagement and investment, customer experience and satisfaction, human capital development, retention, and attraction, and diversity, equity and inclusion; and
- Governance and Responsible Business – corporate governance, business ethics, government relations and political advocacy, and responsible supply chain.

In January 2022, we released our net zero by 2050 aspiration as well as an initial set of 2030 ESG Targets. ATCO's Board of Directors recognizes and fully supports the net-zero aspiration and 2030 targets, and agrees that these aspirations and targets align with our strategic direction. 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 Standards, the Sustainability Accounting Standards Board, the Financial Stability Board's Task Force on Climate-related Financial Disclosures' (TCFD) recommendations, and the new IFRS International Sustainability Standards Board (ISSB) Standards.

The 2022 Sustainability Report, ESG Datasheet, materiality assessment, and additional details and other disclosures are available on our website at www.canadianutilities.com.

CLIMATE CHANGE AND ENERGY TRANSITION

To support the energy transition and contribute to a net-zero future, we continue 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.

Details on 2023 energy transition developments are included in the "Utilities Performance" section in this MD&A.

CLIMATE CHANGE CHALLENGES AND OPPORTUNITIES

While climate-related challenges and opportunities are integrated throughout our strategy and risk management processes, we understand that specifically disclosing climate-related information aligned with the TCFD recommendations is also useful for the investment community.

In addition to the material risks described in the "Business Risks and Risk Management" section of this MD&A, the following table provides further information on how we address specific climate-related challenges and opportunities.

Category/Driver		Challenges	Opportunities	Mitigation Options/Measures
Transitional	Policy/ Regulatory	Operations in several jurisdictions subject to emissions limiting regulations Aggressive shifts in policy which do not allow for transition in an effective, affordable manner	Continued fuel switching to lower-emitting options Electricity generation conversions present opportunities for transmission and distribution infrastructure investment Electricity grid modernization Hydrogen economy development	Active participation in policy development, industry groups, and regulatory discussions Business diversification Hydrogen research and development
	Market	Changes in carbon policy, costs of operations, and commodity prices Changing customer behaviour	Increasing demand for lower-emitting technologies Hydrogen market development Distributed energy solutions	Participation in carbon markets Business diversification
	Technology	Replacement of current products/services with lower-emitting options Prosumer movement may affect energy load profiles in the future	A transition to lower-emitting energy systems provides opportunities to utilize expertise in: generation, integration and delivery of new energy sources including hydrogen, renewable natural gas, EV networks; and transmission and distribution infrastructure to ensure energy network reliability and security	Providing a suite of lower-emitting technology solutions so our customers can pick the right solutions for their unique situation
	Reputational	Public perception of carbon risk	Increase in demand for trusted long-term partners to deliver lower-emitting solutions	Transparent reporting Authentic engagement and collaboration
Physical	Physical	Extreme weather events Long-term changes in temperature and weather patterns	Climate change mitigation and adaptation	Climate change resiliency efforts Emergency Response & Preparedness plans and training

POLICY/REGULATORY UPDATE

We actively and constructively work with all levels of government to advocate for enabling policy and regulation, and to identify barriers that impede cost-effective, economy-wide decarbonization. We participate in a wide number of discussions, and the following are examples of where we focus our efforts on policies or regulations most relevant to our existing or planned projects.

Government of Canada Zero-Emission Vehicle Mandate/Regulations

On December 19, 2023, the Government of Canada finalized the new Electric Vehicle Availability Standard to increase the supply of clean, zero-emission vehicles available to Canadians. The Standard will require that Canada achieve a national target of 100 per cent zero-emission vehicle sales by 2035, with interim targets of at least 20 per cent of all sales by 2026, and at least 60 per cent by 2030, with increases each year. In addition, companies can earn one credit — which can be banked or traded — for every $20,000 invested in fast-charging station infrastructure projects.

Government of Canada Methane Regulations

On December 4, 2023, the Government of Canada announced proposed amendments to federal methane regulations. The proposal is designed to build on existing commitments and now aims to achieve a 75 per cent reduction in oil and gas sector methane emissions by 2030. The existing methane regulation aimed to achieve a 40-45 per cent reduction in methane emissions by 2025. This regulation would apply to onshore upstream, midstream, and transmission oil and gas facilities. The proposed amendments expand the current coverage and stringency levels of the regulations as well as expanding fugitive emissions management and other requirements to manage emissions from equipment. The proposal introduces a performance-based compliance option designed to focus on emissions outcomes, rather than prescribing a specific action for compliance.

Government of Canada Federal Budget 2023

Building on 2022 clean energy and investment tax credit (ITC) announcements, the 2023 Canadian Federal Budget (Budget 2023) released on March 28, 2023 and updated November 28, 2023, provided further details including:

- Clean Technology ITC – a 30 per cent refundable tax credit in clean technologies and expanded to include certain property and additional geothermal equipment.
- Clean Hydrogen ITC – a 15 to 40 per cent refundable tax credit available on eligible equipment for projects that produce hydrogen from electrolysis or natural gas with emissions that are abated using Carbon Capture Utilization and Storage (CCUS).
- Clean Electricity ITC – a 15 per cent refundable tax credit for investments in non-emitting electricity generation systems (i.e., solar, wind, hydro, nuclear), abated natural gas-fired electricity generation, electricity storage systems, and equipment used for transmission of electricity between provinces and territories.
- Clean Technology Manufacturing ITC – a 30 per cent refundable tax credit for the capital costs of machinery and equipment used in manufacturing of renewable energy equipment (i.e., solar, wind, geothermal), nuclear energy equipment, grid-scale electrical storage equipment, zero-emission vehicles, batteries, fuel cells, recharging systems for vehicles, and hydrogen production equipment.

For expenditures that qualify under more than one ITC program, only one credit may be claimed in respect of the relevant piece of property or equipment. There are many details still pending for the different programs announced.

Carbon Pricing/Output-Based Pricing Systems

Announced in January 2023, the carbon price in Canada increased from $50 to $65 per tonne, beginning April 2023. The Government of Canada's plan on climate change proposes to increase the carbon price by $15 per tonne each year starting in 2023, rising to $170 per tonne by 2030.

CLIMATE CHANGE RESILIENCY

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

In our Electricity Transmission and Distribution operations, grid resiliency initiatives focus on prevention, protection, and reaction. Prevention includes minimizing operational risks and ensuring system adequacy through system planning and coordination. Protection is focused on improving grid resiliency through activities such as retrofitting and vegetation management to reduce incidents that result in outages. Wildfire Management Plans include requirements to conduct annual patrols of all transmission power lines in forest protection areas. Finally, we look to restore services in the shortest possible timeframe through grid modernization, adequate contingency planning and dispatch.

In our Natural Gas Transmission and Distribution businesses, the majority of the pipeline network is underground, making it less susceptible to extreme weather events. We work with regulators to increase resiliency where appropriate through asset improvement projects. We have also mapped and continue to regularly inspect pipeline water crossings.

We have streamlined our Crisis Response and Emergency Preparedness systems, and we continuously improve our ability to rapidly mobilize and effectively respond to crises globally. We incorporate learnings from responding to extreme weather events which enables us to continue to strengthen our emergency response capabilities.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 2023 and 2022 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 December 31			Year Ended December 31		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Operating costs	**383**	416	(33)	**1,418**	1,436	(18)
Depreciation, amortization and impairment	**176**	150	26	**607**	559	48
Net finance costs	**94**	91	3	**361**	359	2
Income tax expense	**25**	44	(19)	**118**	193	(75)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation, amortization, and impairment, decreased by $33 million in the fourth quarter of 2023 compared to the same period in 2022. Lower operating costs were mainly due to lower franchise fees at Natural Gas Distribution, partially offset by increased plant and equipment maintenance, technology costs, and increased flow-through costs.

Operating costs decreased by $18 million in the full year of 2023 compared to the same period in 2022. Lower operating costs were mainly due to the factors outlined above, in addition to legal and other costs related to the Wipro Ltd. (Wipro) Master Services Agreement (MSA) matter that was concluded on February 26, 2023. Lower operating costs were partially offset by costs incurred in 2022 related to the AUC enforcement proceeding, and lower purchased power expense after the sale of a controlling interest in Northland Utilities Enterprises Ltd. (NUE) in 2022.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment increased by $26 million and $48 million in the fourth quarter and full year of 2023 compared to the same periods in 2022 mainly due to an impairment of certain computer software assets not expected to be used in the business was recognized in the fourth quarter of 2023. Additionally, there was an impairment recognized in Electricity Transmission in the second quarter of 2023 of certain electricity generation assets that had been removed from service as they were determined to have no remaining value.

NET FINANCE COSTS

Net finance costs increased by $3 million and $2 million in the fourth quarter and full year of 2023 compared to the same periods in 2022 mainly due to higher interest expense on additional long-term debt.

INCOME TAX EXPENSE

Income taxes were lower by $19 million and $75 million in the fourth quarter and full year of 2023 compared to the same periods in 2022 mainly due to lower IFRS earnings before income taxes.

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

The following table shows the credit ratings assigned to CU Inc. at December 31, 2023.

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

On March 17, 2023, Fitch Ratings affirmed its 'A-' issuer rating with a stable outlook for CU Inc.

At our request, on July 12, 2023, S&P Global Ratings withdrew its 'A-' issuer credit rating and all related debt issue ratings on CU Inc. Going forward, Fitch and DBRS will continue to rate CU Inc.

On July 25, 2023, DBRS Limited affirmed its 'A (high)' long-term corporate credit rating and stable outlook on CU Inc.

LINES OF CREDIT

At December 31, 2023, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	—	900
Uncommitted	**100**	57	43
Total	**1,000**	57	943

Of the $1,000 million in total lines of credit, $100 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 2025 and 2026, and may be extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.

CONSOLIDATED CASH FLOW

At December 31, 2023, the Company's cash position was $(71) million, a decrease of $59 million compared to December 31, 2022. Major movements are outlined in the following table:

	Three Months Ended December 31			**Year Ended December 31**		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Cash position, beginning of period	**12**	170	(158)	**(12)**	52	(64)
Cash from (used in):						
Operating activities	**344**	397	(53)	**1,476**	1,818	(342)
Investing activities	**(331)**	(314)	(17)	**(1,136)**	(891)	(245)
Financing activities	**(96)**	(265)	169	**(399)**	(991)	592
Cash position, end of the period	**(71)**	(12)	(59)	**(71)**	(12)	(59)

Operating Activities

Cash flows from operating activities of $344 million and $1,476 million in the fourth quarter and full year of 2023 were $53 million and $342 million lower than the same periods in 2022. These decreases were mainly due to lower cash flows from the recovery of the 2021 deferral of rate increases in 2022 in the Electricity Distribution and Natural Gas Distribution businesses, timing of certain revenue and expenses, and for the full year, lower customer contributions.

Investing Activities

Cash flows used in investing activities of $331 million in the fourth quarter of 2023 were $17 million higher than the same period in 2022 due to the timing of settlement of capital accounts payable on capital projects.

Cash flows used in investing activities of $1,136 million in the full year of 2023 were $245 million higher than the same period in 2022 mainly due to the reconstruction of assets impacted by various wildfires in ATCO Electric Distribution as well as increased capital expenditures related to ongoing system upgrades and growth projects for new customers.

Cash Used for Capital Expenditures

Capital expenditures for the fourth quarter and full year of 2023 and 2022 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Electricity Distribution	**125**	92	33	**391**	282	109
Electricity Transmission	**55**	107	(52)	**239**	284	(45)
Natural Gas Distribution	**109**	105	4	**355**	329	26
Natural Gas Transmission	**46**	51	(5)	**145**	143	2
Total (1) (2)	**335**	355	(20)	**1,130**	1,038	92

(1) Includes additions to property, plant and equipment, intangibles, and $3 million and $15 million (2022 - $3 million and $12 million) of capitalized interest during construction for the fourth quarter and full year of 2023.

(2) Includes $20 million and $116 million for the fourth quarter and full year of 2023 (2022 - $17 million and $153 million) of capital expenditures that were funded with the assistance of customer contributions and government grants.

Cash used for capital expenditures was $335 million in the fourth quarter of 2023, $20 million lower compared to the same period in 2022 mainly due to fewer capital maintenance projects at Electricity Transmission.

Cash used for capital expenditures was $1,130 million in the full year of 2023, $92 million higher compared to the same period in 2022 mainly due to ongoing capital spending, partially offset by fewer capital maintenance projects at Electricity Transmission.

Financing Activities

Cash flows used in financing activities were $96 million in the fourth quarter of 2023, $169 million lower than the same period in 2022 mainly due to a decrease in dividends paid to the Class A and Class B share owner.

Cash flows used in financing activities were $399 million in the full year of 2023, $592 million lower than the same period in 2022 mainly due to a decrease in dividends paid to Class A and Class B share owner, an increase in proceeds from issue of debentures, and lower repayments of short-term debt.

Debenture Issuance

On September 20, 2023, Canadian Utilities' subsidiary CU Inc. issued $340 million of 5.088 per cent 30-year debentures. Proceeds from the issue are being used to finance capital expenditures and for other general corporate purposes.

Debenture Repayments

On May 1, 2023, CU Inc. repaid $100 million of 9.4 per cent debentures upon maturity.

Cash Requirements

Contractual financial obligations and other commitments for the next five years and thereafter are shown below:

($ millions)	**2024**	**2025**	**2026**	**2027**	**2028**	**2029 and thereafter**
Financial Liabilities						
Accounts payable and accrued liabilities	535	—	—	—	—	—
Accounts payable to parent and affiliate companies	34	—	—	—	—	—
Long-term debt:						
Principal	120	7	—	—	125	8,520
Interest expense	369	368	367	367	363	6,422
	1,058	375	367	367	488	14,942
Commitments						
Purchase obligations:						
Operating and maintenance agreements	327	324	330	346	379	322
Capital expenditures	319	—	—	—	—	—
Other	58	22	6	6	6	6
	704	346	336	352	385	328
Total	1,762	721	703	719	873	15,270

SHARE CAPITAL

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

At February 27, 2024, 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 March 31, 2022 through December 31, 2023.

($ millions)	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Revenues	877	670	601	**783**
Earnings for the period	209	77	36	**105**
Adjusted earnings (loss) [1]				
Electricity [2]	82	64	83	**83**
Natural Gas [2]	113	23	(9)	**84**
Corporate & Other and Intersegment Eliminations [2]	(1)	—	—	**—**
Total adjusted earnings [1]	194	87	74	**167**

($ millions)	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Revenues	917	738	659	837
Earnings for the period	222	153	93	136
Adjusted earnings (loss) [1]				
Electricity [2]	90	85	81	70
Natural Gas [2]	122	35	6	83
Corporate & Other and Intersegment Eliminations [2]	(1)	—	(1)	(2)
Total adjusted earnings [1]	211	120	86	151

(1) Total of segments measures (as defined in NI 52-112). See "Other Financial and Non-GAAP Measures" and "Reconciliation of Adjusted Earnings to Earnings for the Period" in this MD&A.

(2) Non-GAAP financial measures (as defined in NI 52-112). See "Other Financial and Non-GAAP Measures" and "Reconciliation of Adjusted Earnings to Earnings for the Period" in 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

In each of the four quarters of 2023, adjusted earnings were lower than the same periods in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. Lower earnings were partially offset by growth in rate base, and new cost efficiencies realized in 2023 in Electricity Distribution and Natural Gas Distribution.

EARNINGS FOR THE PERIOD

Earnings for the period 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:

- On April 14, 2022, the AUC Enforcement branch and ATCO Electric Transmission filed a settlement with the AUC regarding a sole source contract for the Jasper interconnection project. On June 29, 2022, the AUC issued its decision approving the settlement in its entirety. 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 proceeding.
- 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 provided 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.

- 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. 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.
- In the first quarter of 2023, the Company recognized legal and other costs of $2 million (after-tax) related to the early termination of the Wipro Master Services Agreement (MSA) for managed IT services. This matter was concluded on February 26, 2023.
- In the second quarter of 2023, the Company recognized an impairment of $8 million (after-tax) relating to certain electricity generation assets in Electricity Transmission. These assets had been removed from service as it was determined that they no longer had any remaining value.
- In the fourth quarter of 2023, the Company recognized an impairment of $34 million (after-tax) of certain computer software assets which are not expected to be used in the Company.

BUSINESS RISKS AND RISK MANAGEMENT

The Board is responsible for understanding the principal risks of the businesses in which the Company is engaged. The Board also must achieve a prudent balance between risks incurred and the potential return to the share owner. It must confirm controls are in place that effectively monitor and manage those risks for the Company's long-term viability.

The Board has an Audit Committee, which reviews significant risks associated with future performance and growth. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

We have an established enterprise risk management process that allows us to identify and evaluate our risks by both severity of impact and probability of occurrence. Materiality thresholds are reviewed annually by the Audit Committee. Non-financial risks that may have an impact on the safety of our employees, customers or the general public and reputation risks are also evaluated. Details regarding business risks, both financial and operational, and our risk management approach are discussed below.

FINANCIAL RISKS

Project Execution / Capital Investment

DESCRIPTION AND CONTEXT

Having multiple growth projects and an aggressive growth strategy could strain the Company’s ability to deliver projects on time and on budget. This could lead to financial impacts and missed opportunities. Poorly managed projects could result in project deliverables not being achieved or delivered as expected, which could lead to a loss of market confidence and future partners.

The Company is subject to normal risks associated with major capital projects, including cancellations, delays, and cost increases. As it relates to the Company’s energy transition investments, the Company faces additional risks, including policy uncertainty, the pace of energy transition, commodity and environmental attribute price risk, and climate-related risks.

RISK MANAGEMENT APPROACH

The Company attempts to reduce the risks of project delays and cost increases through careful project feasibility, development and management processes, reliable procurement practices and entering into fixed price contracts when possible.

Planned capital investments for the Alberta Utilities are based on the following significant assumptions: projects identified by the Alberta Electric System Operator will proceed as currently scheduled; the remaining planned capital investments are required to maintain safe and reliable service and meet planned growth in the Alberta Utilities' service areas; regulatory approval for capital projects can be obtained in a timely manner; and access to capital market financings can be maintained.

The Company reduces risks associated with policy uncertainty, the pace of energy transition, commodity and environmental attribute price risk, and climate-related risks by leveraging our competitive advantages and assigning clear accountability and leadership for executing and realizing capital investment. The Company believes these assumptions are reasonable.

Financing

DESCRIPTION AND CONTEXT

The Company's financing risk relates to price volatility and availability of external financing to fund the Company's capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, these risk factors can affect the availability of capital and the relevant financing costs.

RISK MANAGEMENT APPROACH

To address this risk, the Company manages its capital structure to maintain strong investment grade credit ratings that allow continued ease of access to the capital markets. The Company also considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. This liquidity is generated by cash flows from operations and supported by appropriate levels of cash and available committed credit facilities.

Liquidity

DESCRIPTION AND CONTEXT

Liquidity risk is the risk that the Company will not be able to meet its financial obligations.

RISK MANAGEMENT APPROACH

Cash flow from operations satisfies a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long-term debt, preferred shares, and common equity. Commercial paper borrowings and short-term bank loans under available credit lines are used to provide flexibility in the timing and amounts of long-term financing. At December 31, 2023, the Company's cash position was approximately $(71) million and there were available committed and uncommitted lines of credit of approximately $0.9 billion, which can be utilized for general corporate purposes.

Liquidity risk includes contractual financial obligations, which the Company plans to meet with cash flow from operations, existing cash balances and external financing, if necessary. See the "Liquidity and Capital Resources" section of this MD&A for the Company's contractual financial obligations for the next five years and thereafter.

Credit

DESCRIPTION AND CONTEXT

For cash and cash equivalents and accounts receivable and contract assets, credit risk represents the carrying amount on the consolidated balance sheet. Derivative and finance lease receivable credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments.

RISK MANAGEMENT APPROACH

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

The Company minimizes other credit risks by dealing with credit-worthy counterparties, following established credit approval policies, and requiring credit security, such as letters of credit.

The Alberta Utilities are able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from the retailers beyond the retailer security mandated by provincial regulations.

Foreign Exchange

DESCRIPTION AND CONTEXT

The Company is exposed to transactional foreign exchange risk through transactions denominated in a foreign currency.

RISK MANAGEMENT APPROACH

In conducting its business, the Company may use forward contracts to manage the risks arising from known fluctuations in exchange rates. Such instruments are used only to manage risk and not for trading purposes. The foreign exchange impact is partially offset by hedging activities.

Inflation Risk

DESCRIPTION AND CONTEXT

Inflation has the potential to impact the economies and business environments in which the Company operates. Increased inflation and any economic conditions resulting from governmental monetary policy intended to reduce inflation may negatively impact demand for products and services and/or adversely affect profitability.

RISK MANAGEMENT APPROACH

The Company monitors the impacts of inflation on the procurement of goods and services and seeks to minimize its effects in future periods through pricing strategies, productivity improvements, and cost reductions. The majority of the impact on costs resulting from inflation is mitigated through the regulatory construct, long-term contractual terms, and pricing of short-term contractual sales. The Company maintains strong investment grade ratings, which helps mitigate the risk of higher interest costs, and the vast majority of the Company's outstanding debt carries fixed rate interest, which helps to alleviate the impact of increasing short-term interest rates.

OPERATIONAL RISKS

Health and Safety

DESCRIPTION AND CONTEXT

The operation of the Company's businesses inherently involves risk to the health and safety of both employees and the public. Such hazards include but are not limited to: the uncontrolled release of substances from our natural gas transmission and distribution systems resulting in blowouts, fires, explosions, or gaseous leaks; and exposure to an unintended release of electrical energy from our transmission and distribution wires system, including contact with an energized circuit, electrical component, or equipment.

The failure to identify or inadequately identify worksite and/or work environment hazards or implement adequate controls may cause loss of life or personal injury.

RISK MANAGEMENT APPROACH

Safety is one of the Company's core values and is the first consideration in everything we do. The Company has controls in place to mitigate these risks through pipeline and facility integrity programs, inspection programs, operator training, emergency response full mobilization and tabletop exercises, mutual aid agreements (with others in industry and municipalities), external awareness and education training through its damage prevention department.

The Company has a number of safety programs, specialized training, detailed work methods and processes to ensure the safety of our employees and contractors as they perform their work duties to help mitigate these risks. From a public safety perspective, the Company participates in a number of public communication campaigns and joint utility working groups and various other public safety activities and campaigns at the regional level.

Cybersecurity

DESCRIPTION AND CONTEXT

The Company's reliance on technology, which supports its information and industrial control systems, is subject to potential cyber-attacks, which may include but are not limited to: unauthorized access of confidential information, outage of critical infrastructure and/or ransomware attacks.

RISK MANAGEMENT APPROACH

The Company has an enterprise-wide cybersecurity program covering all technology assets. The cybersecurity program includes employee awareness, layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized security operations centre. The Company's cybersecurity management is consolidated under a common, centralized organization structure to increase effectiveness and compliance across the entire enterprise.

Regulatory

DESCRIPTION AND CONTEXT

The Regulated Utilities are subject to risks associated with the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base. The Regulated Utilities are also subject to the potential risk of the regulator disallowing costs incurred. Electricity Distribution and Natural Gas Distribution operate under PBR. Under PBR, the Regulated Utilities' revenues are formula driven, which raises the uncertainty of cost recovery.

RISK MANAGEMENT APPROACH

The Regulated Utilities file forecasts in the rate-setting process to recover the costs of providing services and earn a fair rate of return. The determination of a fair rate of return on the common equity component of rate base is determined in a GCOC proceeding in Alberta. The Regulated Utilities continuously monitor various regulatory decisions and cases to assess how they might impact the Company's regulatory applications for the recovery of costs. The Regulated Utilities are proactive in demonstrating prudence and continuously look for ways to lower operating costs while maintaining service levels.

Climate Change

DESCRIPTION AND CONTEXT - POLICY RISKS

The Company is subject to emissions regulations, including carbon pricing, output-based performance standards, and other emissions management policies.

The potential of aggressive shifts in government decarbonization policies with limited transitional periods could create risk as well as concerns over the energy transition being completed in an effective, reliable and affordable manner. Future reliability of energy systems has also become a concern for system regulators and operators.

Part of the Company's growth strategy is taking a leadership role in the energy transition and associated projects. A lack of clarity on proposed regulations and funding creates revenue uncertainty for these projects.

RISK MANAGEMENT APPROACH - POLICY RISKS

The Company's exposure to climate change policy risks is mitigated to some extent for the Regulated Utilities because GHG emission charges are generally recovered in rates. In addition, future requirements, such as upgrading equipment to further reduce methane emissions in the natural gas utilities, are expected to be included in rate base on a go-forward basis.

The Company is actively and constructively working with all levels of government to ensure the impacts and costs of proposed policy changes and pace of energy transition are identified and understood. Where appropriate, the Company is also working with its peers and industry associations to develop common positions and strategies.

The Company is targeting climate change resilient investments and is working with different levels of government and Indigenous communities on the opportunities, policy needs, market access, and funding requirements for projects that help support climate action.

DESCRIPTION AND CONTEXT - PHYSICAL RISKS

Physical risks associated with climate change may include an increase in extreme weather events such as heavy rainfall, floods, wildfires, extreme winds, and ice storms, or changing weather patterns that cause ongoing impacts to seasonal temperatures. Assets across all of the Company's businesses are exposed to extreme weather events.

RISK MANAGEMENT APPROACH - PHYSICAL RISKS

The Company continues to carefully manage physical risks, including preparing for, and responding to, extreme weather events through activities such as proactive route and site selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes, continues to evaluate ways to create greater system reliability and resiliency and, where appropriate, submits regulatory applications for capital expenditures aimed at creating greater system reliability and resiliency.

Prevention activities include vegetation management for electricity transmission and distribution operations, as well as burying power lines in select areas. The majority of the Company's natural gas pipeline network is in the ground, making it less susceptible to extreme weather events.

The Company maintains in-depth emergency response measures for extreme weather events, including robust Wildfire Management Plans. When planning for capital spending or acquiring assets, site specific climate and weather factors, such as flood plain mapping and extreme weather history are considered.

These are the material climate-related risks facing the Company. For more detailed information on additional climate-related risks please refer to the "Sustainability, Climate Change and Energy Transition" section of this MD&A.

Pipeline Integrity

DESCRIPTION AND CONTEXT

Natural Gas Transmission and Natural Gas Distribution have significant pipeline infrastructure. Although the probability of a pipeline failure is very low, the consequences of a failure could be severe.

RISK MANAGEMENT APPROACH

Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines or pipeline infrastructure as required to address safety, reliability, and future growth. These programs include Natural Gas Transmission's integrity programs, and Natural Gas Distribution's Mains Replacement programs. The Company also carries property and liability insurance. The Company actively engages in damage prevention initiatives including proactive direct engagement with the building and excavation communities. The Company also promotes ground disturbance and excavation safety to homeowners and the excavation community.

Political

DESCRIPTION AND CONTEXT

The Company’s operations are exposed to a risk of change in the business environments in which we operate due to political and legislative changes. Legislative or policy changes may impact the financial performance of operations. This could negatively impact earnings, return on equity and assets, and credit metrics.

RISK MANAGEMENT APPROACH

Participation in policy consultations with governments and engagement of stakeholder groups ensure ongoing communication and that the impacts and costs of proposed policy changes are identified and understood. Where appropriate, the Company works with its peers and industry associations to develop common positions and strategies. Geographic diversification of assets by region and by country reduces the impact of political and legislative changes.

Reputation

DESCRIPTION AND CONTEXT

The Company’s operations and growth prospects require strong relationships with key stakeholders, including regulators, governments and agencies, Indigenous communities, landowners, and environmental organizations. Inadequately managing expectations and issues important to stakeholders, including those arising during construction of major capital projects and operation of critical energy infrastructure, could affect the Company's reputation as well as have a significant impact on its operations and infrastructure development.

There is risk of non-compliance with the Company's internal policies, including its Code of Conduct, or anti-bribery and anti-corruption laws by the Company’s employees, affiliates, independent contractors and/or agents, which may potentially lead to reputational damage, in addition to fines, penalties, or litigation.

Any accusation of poor operational, leadership, or governance actions and/or practices that may be levelled against the Company could create reputational risk for the Company, even in respect of issues or events that are largely outside of our control, including but not limited to: protests, activist activity, sabotage, terrorism, failure of supply, weather, catastrophic events and natural disasters, fires, floods, explosions, earthquakes and other similar events, government policy, economic and/or social circumstances, and/or actions of third parties, which may affect safety or quality of life of citizens.

Customers' monthly utility bills are made up of several components and it can be difficult to isolate the portions between the various rate drivers. This can lead to customer confusion and lack of understanding of the components of the bill and the various drivers of bill increases. Any such confusion may have reputational and/or financial impacts on the Company.

RISK MANAGEMENT APPROACH

To address these risks, the Company has robust frameworks, practices, and training programs for employees in place with respect to operations and maintenance, safety, whistleblower complaints, governance, and community engagement. The Company will continue to ensure a rapid and effective operational response is in place when responding to fires, line strikes, extreme weather events or similar events that may affect our services. The Company prepares communication plans and key messages for customers and media as rate changes are approved by the regulator and ready to be applied to the customers' bills. These plans address the specific reasons and drivers for changes in rates.

The Company's Marketing & Communications team is engaged at the outset on all customer-facing initiatives and issues ensuring information is accurate, clear and concise to minimize negative perception by customers. The Company also allocates resources and personnel to support public consultation around capital work, educational safety campaigns and business development efforts.

The Company has a strong focus on community investment and communications efforts ensuring the Company's commitment to being a positive contributor to our community is demonstrable to the public and our customers.

Operations

DESCRIPTION AND CONTEXT

The Company's operations are subject to the risks normally associated with the operating and development of power systems and facilities, and the storage and transportation of natural gas. These can include, without limitation; mechanical failure, transportation problems, physical degradation, operator error, manufacturer defects, constraints on natural resource development, delay of or restrictions on projects due to climate change policies and initiatives, protests, activist activity, sabotage, terrorism, failure of supply, weather, catastrophic events and natural disasters, fires, floods, explosions, earthquakes, and other similar events. These types of events could result in injuries to personnel, third parties, including the public, damage to property and the environment, as well as unplanned outages or prolonged downtime for maintenance and repair. Among other things, these events typically increase operational and maintenance expenses and reduce revenues. The occurrence or continuation of any of these events could result in significant losses for which insurance may not be sufficient or available. Environmental damage could also result in increased costs to operate and insure the Company's assets and have a negative impact on the Company's reputation and its ability to work collaboratively with stakeholders.

RISK MANAGEMENT APPROACH

To mitigate these risks, the Company has policies and an associated system of standards, processes and procedures to identify, assess and mitigate safety, operational and environmental risks across our operations. In addition, the Company maintains a comprehensive insurance program in respect of our assets and operations. The occurrence of an event that is not fully covered by our insurance program could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Third Party Risk

DESCRIPTION AND CONTEXT

Certain of the Company's assets are jointly owned and are governed by partnership, joint venture, or shareholder agreements entered into with third parties. As a result, certain decisions relating to these assets require the approval of a simple or special majority of the partners or owners, while others require unanimous approval of the owners. In addition, certain of these assets are constructed, maintained, and operated by unrelated third-party entities. The success of these assets is, to some extent, dependent on the effectiveness of the business relationship and decision-making among the Company and the other partner(s) or owner(s) and the expertise and ability of any third-party constructors, material suppliers, consultants and operators to operate and maintain the assets. There can be no assurance that the Company will not encounter disputes with partners or owners or that assets operated by third parties may not perform as expected. Such events could impact operations or cash flows of these assets or cause them to not operate as the Company expects, which could, in turn, have a negative impact on the Company's business operations and financial performance.

RISK MANAGEMENT APPROACH

The Company believes that it has prudent governance and other contractual rights in place, along with robust third-party selection due diligence to help mitigate third party risk, reduce the likelihood of disputes and ensure assets operated by third parties perform as expected.

Technological Transformation and Disruption

DESCRIPTION AND CONTEXT

The introduction and rapid, widespread adoption of transformative technology could lead to disruption of the Company's existing business models and introduce new competitive market dynamics. Failure to effectively identify and manage disruptive technology and/or changing consumer attitudes and preferences may result in disruptions to the business and an inability to achieve strategic and financial objectives.

RISK MANAGEMENT APPROACH

The strategic plans of each business unit incorporate transformative technology into the evolution of their business and ensure that the best available technology is deployed to support current state operational efficiency and reliability. The business seeks opportunities to minimize costs by monitoring trends occurring in other jurisdictions that may be ahead of the technological curve.

Indigenous Land Claims and Consultation

DESCRIPTION AND CONTEXT

Indigenous peoples assert and claim, or have established, Aboriginal and/or Treaty rights and/or Aboriginal title in relation to a substantial portion of the lands and waters in Canada.

There is a risk of project delays and relationship challenges caused by changes to consultation and engagement policies and expectations at the community, provincial and federal levels. In addition, on June 21, 2021, Canada's United Nations Declaration on the Rights of Indigenous Peoples Act (the UNDRIP Act) received Royal Assent and came into force. The UNDRIP Act provides a roadmap for the Government of Canada and Indigenous peoples to work together to implement the United Nations Declaration on the Right of Indigenous Peoples (the UN Declaration) based on lasting reconciliation, healing, and cooperative relations. On June 21, 2023, the United Nations Declaration Act Action Plan (the Action Plan), developed in consultation with Indigenous peoples from across Canada, was released. The implementation of the UNDRIP Act and the Action Plan will contribute to the Government of Canada's continued efforts to break down barriers, combat systemic racism and discrimination, close socio-economic gaps, and promote greater equality and prosperity for Indigenous peoples. The impact of the UNDRIP Act and the Action Plan and how they will be implemented and interpreted as part of Canadian law is still unknown, and therefore the Company is unable to assess the effect, if any, that any land claims, consultation requirements with Indigenous peoples or the implementation of the UNDRIP Act and the Action Plan may have on the Company's business; however, the impact could have a material adverse effect on the Company's operations.

ATCO, CU Inc.'s ultimate parent company, has a long history of successful partnerships with Indigenous communities with over 40 current partnerships, however, more effort needs to be undertaken to truly engage and include Indigenous communities into the economy. Indigenous communities throughout the areas of Canada where the Company operates have indicated their desire for this inclusion and participation in energy infrastructure ownership.

RISK MANAGEMENT APPROACH

As this is an emerging issue, the Company continues to evaluate the risks and opportunities. It is evident to the Company that the desire for Indigenous energy autonomy and ownership is increasing, so it is imperative that the Company evaluates options, educates key parties on the regulatory, financial and operational risks, and determines our stance and goals for these engagements. The Company views a proactive approach as our best strategy to continue to be front runners in the Indigenous equity space and to outpace Government of Canada expectations.

Workforce Retention

DESCRIPTION AND CONTEXT

Should the Company face a low level of retention in its workforce, especially within critical roles, this could result in a shortage of personnel that may hamper Company operations and negatively impact the ability of the Company to meet its business objectives.

RISK MANAGEMENT APPROACH

The Company's investment in our people provides an attractive environment that fosters retention. The Company continuously reviews and enhances its people resourcing and management strategy. This includes enhancing ATCO branding and highlighting our Company values, building strong partnerships with educational institutions to attract new graduates and co-operative education students, aligning total rewards, including compensation, benefits, pension and employee share purchase programs, with market practice, and delivering orientation and onboarding for cultural and strategy awareness. We promote and support the development of our people, complete succession and development planning annually with a significant focus on critical roles and skills, and provide leadership training for leaders and individual development programs for all employees. The annual performance management program facilitates discussions on annual goals, development plans and career planning.

To promote a culture of inclusiveness we have established an active Diversity, Equity and Inclusion (DE&I) Council and a Well-being@ATCO program, and we continue to build an environment where people feel safe (physically and psychologically), have equal opportunity, and feel included. To understand more deeply the risks to retention, exit interviews are conducted and an annual employee engagement survey is conducted, in which 90 per cent of our employees participated in 2023. Results are reviewed to inform areas of risk and engagement action plans are developed by leaders to address risks. As a result, the Company's retention rates continue to be at or higher than industry benchmarks.

Labour Relations

DESCRIPTION AND CONTEXT

Most of the Company’s business units employ members of associations or labour unions under collective bargaining agreements. Should any developments result in a strained relationship with any of our associations and/or labour unions and/or work interruptions involving the Company’s workforce, this could create risk for our businesses, which may result in increased grievances, arbitrations, and/or collective bargaining, which may impede our ability to make progress on our business agenda.

RISK MANAGEMENT APPROACH

The Company has dedicated labour relations resources which focus on resolving issues, grievances and arbitrations. The Company ensures all Human Resources Business Partners and business leaders who manage large in-scope employee populations attend labour relations training to provide practical day-to-day knowledge of our collective agreements and to develop capability in the areas of performance management and investigations. The Company is committed to early and open dialogue with our associations and labour unions regarding business changes and employee impacts in order to maintain a mutually beneficial relationship. Two of our larger associations, Canadian Energy Workers Association (CEWA) and Natural Gas Employees' Association (NGEA), have collective bargaining agreements that do not provide bargaining unit employees with the right to strike and that prohibit lock-outs by management.

Litigation and Claims

DESCRIPTION AND CONTEXT

In the ordinary course of business, the Company or entities in which it has an interest may be subject to demands, disputes, proceedings, arbitrations and/or litigation (Claims) arising out of or related to our operations and other contractual relationships, and any such Claims may be material. Due to the nature of our operations, various types of Claims may be raised, including, but not limited to, failure to comply with applicable laws and regulations including health and safety, environmental damage, climate change and the impacts thereof, breach of contract, negligence, product liability, antitrust, bribery and other forms of corruption, tax, disclosure, securities class actions, derivative actions, patent infringement, privacy, employment matters or labour relations, personal injury, and in relation to a cyber attack, breach or unauthorized access to the Company’s information technology and infrastructure. Litigation is subject to uncertainty, and it is possible that Claims could result in unfavourable judgments, decisions, fines, sanctions, monetary damages, temporary or permanent suspensions of operations, or the inability to engage in certain transactions. In addition, unfavourable outcomes or settlements of Claims could encourage further Claims. The Company may also be subject to adverse publicity and reputational impacts associated with such matters, regardless of whether the Company is ultimately found liable. There is a risk that the outcome of any such Claims may be materially adverse to the Company and/or that the Company may be required to incur significant expenses or devote significant resources in defence of such Claims, the success of which cannot be guaranteed.

RISK MANAGEMENT APPROACH

The Company reviews all Claims it receives, including the nature of each Claim, the amount in dispute or claimed and the availability of insurance coverage, and allocates internal or external resources in defence of such Claims, as it deems appropriate.

Pandemic Risk

DESCRIPTION AND CONTEXT

An outbreak of infectious disease, a pandemic or a similar public health threat, such as the COVID-19 pandemic, or a fear of any of the foregoing, could adversely impact the Company by causing operating, supply chain and project development delays and/or disruptions, inflation risk, labour shortages and/or shutdowns as a result of government regulation and prevention measures. These impacts could increase strain on employees and compromise levels of customer service, either of which could have a negative impact on the Company's operations.

Any deterioration in general economic and market conditions resulting from a public health threat could negatively affect demand for electricity and natural gas, revenue, operating costs, timing and extent of capital expenditures, results of financing efforts, or credit risk and counterparty risk, any of which could have a negative impact on the Company's business.

RISK MANAGEMENT APPROACH

The Company's investments in essential services are largely focused on our Regulated Utilities and long-term contracted businesses with strong counterparties, creating a resilient investment portfolio. CU Inc. has a comprehensive pandemic plan that is activated when a pandemic is declared. The plan includes travel restrictions, limited access to facilities, a direction to work from home whenever possible, physical distancing measures and other protocols (including the use of personal protective equipment while at a work premise). Additionally, the Company follows recommendations by local, provincial and national public health authorities in Canada and in other jurisdictions around the world in which we operate to adjust operational requirements as needed to ensure a coordinated approach across the Company.

OTHER FINANCIAL AND NON-GAAP MEASURES

This MD&A contains various "total of segments measures" (as such term is defined in NI 52-112), and "non-GAAP financial measures" (as such term is defined in NI 52-112), which are described in further detail below.

Total of Segments Measures

NI 52-112 defines a "total of segments measure" as a financial measure disclosed by an issuer that is a subtotal or total of two or more reportable segments of an entity, is not a component of a line item disclosed in the primary financial statements of the entity, is disclosed in the notes to the financial statements of the entity, and is not disclosed in the primary financial statements of the entity.

Consolidated adjusted earnings and adjusted earnings for Utilities are total of segments measures, as defined in NI 52-112.

Non-GAAP Financial Measures

NI 52-112 defines a "non-GAAP financial measure" as a financial measure disclosed by an issuer that (a) depicts the historical or expected future financial performance, financial position or cash flow of an entity, (b) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the primary financial statements of the entity, (c) is not disclosed in the financial statements of the entity, and (d) is not a ratio, fraction, percentage or similar representation.

Adjusted earnings for each of Electricity Distribution, Electricity Transmission, Total Electricity, Natural Gas Distribution, Natural Gas Transmission, Total Natural Gas, are non-GAAP financial measures, as defined in NI 52-112.

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 2023 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. 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 2022 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.

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 excludes 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 December 31**
2023 2022	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**371**	**416**	**—**	**(4)**	**783**
	363	475	—	(1)	837
Adjusted earnings (loss)	**83**	**84**	**—**	**—**	**167**
	70	83	(2)	—	151
Impairments	**(12)**	**(22)**	**—**	—	**(34)**
	—	—	—	—	—
Rate-regulated activities	**(12)**	**(13)**	**—**	**—**	**(25)**
	(31)	18	—	—	(13)
IT Common Matters decision	**(2)**	**(3)**	**—**	**—**	**(5)**
	(2)	(2)	—	—	(4)
Dividends on equity preferred shares of the Company	**1**	**1**	**—**	**—**	**2**
	1	1	—	—	2
Earnings (loss) for the period	**58**	**47**	**—**	**—**	**105**
	38	100	(2)	—	136

($ millions) 2023 / 2022	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated (Year Ended December 31)
Revenues	**1,397**	**1,542**	**—**	**(8)**	**2,931**
	1,464	1,692	—	(5)	3,151
Adjusted earnings (loss)	**312**	**211**	**(1)**	**—**	**522**
	326	246	(4)	—	568
Impairments	**(20)**	**(22)**	**—**	**—**	**(42)**
	—	—	—	—	—
Rate-regulated activities	**(45)**	**7**	**—**	**—**	**(38)**
	(12)	86	—	—	74
IT Common Matters decision	**(11)**	**(9)**	**—**	**—**	**(20)**
	(9)	(6)	—	—	(15)
Transition of managed IT services	**(1)**	**(1)**	**—**	**—**	**(2)**
	—	—	—	—	—
Dividends on equity preferred shares of the Company	**4**	**3**	**—**	**—**	**7**
	4	3	—	—	7
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	**239**	**189**	**(1)**	**—**	**427**
	284	324	(4)	—	604

IMPAIRMENTS

In the second quarter of 2023, the Company recognized an impairment of $8 million (after-tax) relating to certain electricity generation assets in Electricity Transmission. These assets had been removed from service as it was determined that they no longer had any remaining value.

In the fourth quarter of 2023, the Company recognized impairments of $34 million related to certain computer software assets which are not expected to be used in the business for Electricity Distribution and Natural Gas Distribution.

RATE-REGULATED ACTIVITIES

ATCO Electric Transmission, ATCO Electric Distribution, ATCO Electric Yukon, Northland Utilities (NWT), Northland Utilities (Yellowknife), ATCO Gas and ATCO Pipelines are collectively referred to as the Regulated Utilities.

There is currently no specific guidance under IFRS Accounting Standards 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 Accounting Standards in the following ways:

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

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

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Additional revenues billed in current year						
Future removal and site restoration costs [1]	**28**	23	5	**118**	114	4
Impact of colder temperatures [2]	**—**	11	(11)	**—**	3	(3)
Revenues to be billed in future periods						
Deferred income taxes [3]	**(39)**	(40)	1	**(149)**	(103)	(46)
Impact of warmer temperatures [2]	**(23)**	—	(23)	**(33)**	—	(33)
Settlement of regulatory decisions and other items						
Distribution rate relief [4]	**5**	20	(15)	**18**	104	(86)
Other [5]	**4**	(27)	31	**8**	(44)	52
	(25)	(13)	(12)	**(38)**	74	(112)

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

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

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

(4) In 2021, in response to the COVID-19 pandemic, Electricity Distribution and Natural Gas Distribution had interim rate relief for customers approved by the AUC to hold current distribution base rates in place. Based on direction from the AUC, collection of 2021 deferred rates commenced in 2022 and for

the fourth quarter and year ended December 31, 2023, $5 million and $18 million (after-tax) (2022 - $20 million and $104 million (after-tax)) was billed to customers.

(5) In 2022, Electricity Distribution recorded a decrease in earnings of $18 million (after-tax) related to payments of electricity transmission costs and Natural Gas Distribution recorded a decrease in earnings of $15 million (after-tax) related to payments of gas pipeline system load balancing costs.

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, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings in the fourth quarter and full year of 2023 was $5 million and $20 million (after-tax) (2022 - $4 million and $15 million (after-tax)).

TRANSITION OF MANAGED IT SERVICES

In the first quarter of 2023, the Company recognized additional legal and other costs of $2 million (after-tax) related to the Wipro MSA matter that was concluded on February 26, 2023.

AUC ENFORCEMENT PROCEEDING

On April 14, 2022, the AUC Enforcement branch and ATCO Electric Transmission filed a settlement with the AUC regarding a sole source contract for the Jasper interconnection project. On June 29, 2022, the AUC issued its decision approving the settlement in its entirety. In the first quarter of 2022, the Company recognized costs of $27 million (after-tax) related to 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 provided 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.

The following tables reconcile adjusted earnings for Utilities to the directly comparable financial measure, earnings for the period.

($ millions)

Three Months Ended December 31

2023 / 2022	CU Inc.						
	Electricity			Natural Gas			Consolidated
	Electricity Distribution	Electricity Transmission	Consolidated Electricity	Natural Gas Distribution	Natural Gas Transmission	Consolidated Natural Gas	
Adjusted earnings	**47**	**36**	**83**	**62**	**22**	**84**	**167**
	33	37	70	63	20	83	153
Impairments	**(12)**	**—**	**(12)**	**(22)**	**—**	**(22)**	**(34)**
	—	—	—	—	—	—	—
Rate-regulated activities	**(6)**	**(6)**	**(12)**	**(5)**	**(8)**	**(13)**	**(25)**
	(22)	(9)	(31)	26	(8)	18	(13)
IT Common Matters decision	**(1)**	**(1)**	**(2)**	**(3)**	**—**	**(3)**	**(5)**
	(2)	—	(2)	(2)	—	(2)	(4)
Dividends on equity preferred shares of the Company	**1**	**—**	**1**	**1**	**—**	**1**	**2**
	1	—	1	1	—	1	2
Earnings for the period	**29**	**29**	**58**	**33**	**14**	**47**	**105**
	10	28	38	88	12	100	138

($ millions)

Year Ended December 31

2023 / 2022	CU Inc.						
	Electricity			Natural Gas			Consolidated
	Electricity Distribution	Electricity Transmission	Consolidated Electricity	Natural Gas Distribution	Natural Gas Transmission	Consolidated Natural Gas	
Adjusted earnings	**150**	**162**	**312**	**120**	**91**	**211**	**523**
	161	165	326	158	88	246	572
Impairments	**(12)**	**(8)**	**(20)**	**(22)**	**—**	**(22)**	**(42)**
	—	—	—	—	—	—	—
Rate-regulated activities	**(3)**	**(42)**	**(45)**	**21**	**(14)**	**7**	**(38)**
	(29)	17	(12)	98	(12)	86	74
IT Common Matters decision	**(6)**	**(5)**	**(11)**	**(8)**	**(1)**	**(9)**	**(20)**
	(5)	(4)	(9)	(5)	(1)	(6)	(15)
Transition of managed IT services	**(1)**	**—**	**(1)**	**(1)**	**—**	**(1)**	**(2)**
	—	—	—	—	—	—	—
Dividends on equity preferred shares of the Company	**2**	**2**	**4**	**2**	**1**	**3**	**7**
	2	2	4	2	1	3	7
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
Other	**3**	**(3)**	**—**	**—**	**—**	**—**	**—**
	—	—	—	—	—	—	—
Earnings for the year	**133**	**106**	**239**	**112**	**77**	**189**	**428**
	132	152	284	250	74	324	608

OTHER FINANCIAL INFORMATION

OFF BALANCE SHEET ARRANGEMENTS

CU Inc. does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, including, without limitation, the Company's liquidity and capital resources.

CONTINGENCIES

The Company is party to a number of disputes and lawsuits in the normal course of business. The Company believes the ultimate liability arising from these matters will have no material impact on its 2023 Consolidated Financial Statements.

MATERIAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company’s material accounting estimates are described in Note 21 of the 2023 Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes judgments and estimates that could materially affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these judgments and estimates concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an ongoing basis; changes to accounting estimates are recognized prospectively.

FINANCIAL INSTRUMENTS

Financial instruments are measured at amortized cost or fair value. The valuation methods used to measure financial instruments are described in Note 18 of the 2023 Consolidated Financial Statements, which are prepared in accordance with IFRS.

RELATED PARTY TRANSACTIONS

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers of assets between entities under common control are measured at the carrying amount. For further information, please refer to Note 26 of the 2023 Consolidated Financial Statements.

ACCOUNTING CHANGES

At December 31, 2023, there are no new or amended standards issued, or interpretations that need to be adopted in future periods, which will have a material effect on the 2023 Consolidated Financial Statements once adopted.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2023, management evaluated the effectiveness of the Company’s disclosure controls and procedures as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in documents filed by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. The disclosure controls and procedures also seek to assure that information required to be disclosed by the Company is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions on required disclosure.

Management, including the CEO and the CFO, does not expect the Company's disclosure controls and procedures will prevent or detect all errors. The inherent limitations in all control systems are that they can provide only reasonable, not absolute, assurance that all control issues and instances of error, if any, within the Company have been detected.

Based on this evaluation, the CEO and the CFO have concluded that the Company’s disclosure controls and procedures were effective at December 31, 2023.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The certification of annual filings for the year ended December 31, 2023, requires that the Company disclose in the annual MD&A any changes in the Company's internal controls over financial reporting (ICFR) that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. The Company confirms that no such changes were identified in the Company's ICFR during the period beginning on January 1, 2023 and ending on December 31, 2023.

The Company's ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, ICFR can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

As of December 31, 2023, management evaluated the effectiveness of the Company's ICFR as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

Based on this evaluation, the CEO and the CFO have concluded that the Company's ICFR was effective at December 31, 2023.

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: strategic plans and targets, including ESG targets and the aspiration to achieve net zero GHG emissions by 2050; expected emissions reductions, and decarbonization to enable customers to transition to lower emitting sources of energy while maintaining safety, reliability and affordability; anticipated timing for the ROE rates annually; the expected timing of commencement, completion or commercial operations of activities, contracts and projects; the expected term of contracts; the impact or benefits of contracts, including economic and other benefits for the Company and its partners and counterparties; expected inflation; expected growth and diversification and expansion opportunities; the Company's capital investment plans for the 2024 to 2026 period; the Company's anticipated growth in mid-year rate base to 2026E; the expected timing and impact of regulatory decisions and new regulatory announcements; and the Company's liquidity, capital resources and contractual financial obligations and other commitments.

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 meet its initial set of 2030 ESG targets and successfully achieve its net-zero GHG target by 2050; certain regulatory applications will be made and approved in 2024, including one related to increasing natural gas demand in the Heartland Industrial region; expected rate base growth of 4 per cent to 5 per cent over a longer term; 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 ESG targets; continuing collaboration with certain business partners and engagement with new business partners, and 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, regulations and government policies; regulatory decisions; competitive factors in the industries in which the Company operates; prevailing market and economic conditions; 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; potential termination or breach of contract by contract counterparties; 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 this MD&A.

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

Additional information relating to the Company, including the Company's 2023 Consolidated Financial Statements and most recent Annual Information Form dated March 30, 2023, can be found on SEDAR+ at www.sedarplus.ca.

Copies of these documents may also 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. Corporate information is also available on the Company's website at www.canadianutilities.com.

GLOSSARY

Alberta Utilities or Regulated 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 common 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.

Consumer price index (CPI) measures the average change in prices over time that consumers pay for a basket of goods and services.

COS means Cost of Service.

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.

ECM means efficiency carry-over mechanism.

ESG means Environmental, Social and Governance.

FWI means Fixed Weighted Index of average hourly earnings for all employees, by industry, monthly.

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

GRA means general rate application.

GTA means general tariff application.

IFRS means International Financial Reporting Standards.

I-X means the Inflation Adjuster (I Factor) minus Productivity Adjuster (X Factor).

K Bar means the AUC allowance for capital additions under performance based regulation.

O&M means operating and maintenance.

PBR means Performance Based Regulation.

ROE means return on equity.

APPENDIX 1

FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2023 and 2022 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2023**	**2022**
Revenues	**783**	837
Costs and expenses		
Salaries, wages and benefits	**(64)**	(73)
Energy transmission and transportation	**(71)**	(68)
Plant and equipment maintenance	**(54)**	(75)
Fuel costs	**(5)**	(4)
Purchased power	**(14)**	(15)
Depreciation, amortization and impairment	**(176)**	(150)
Franchise fees	**(70)**	(84)
Property and other taxes	**(17)**	(16)
Other	**(88)**	(81)
	(559)	(566)
Operating profit	**224**	271
Interest income	**1**	2
Interest expense	**(95)**	(93)
Net finance costs	**(94)**	(91)
Earnings before income taxes	**130**	180
Income taxes	**(25)**	(44)
Earnings for the period	**105**	136

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2023	2022
Operating activities		
Earnings for the period	**105**	136
Adjustments to reconcile earnings to cash flows from operating activities	**313**	296
Changes in non-cash working capital	**(74)**	(35)
Cash flows from operating activities	**344**	397
Investing activities		
Additions to property, plant and equipment	**(301)**	(315)
Proceeds on disposal of property, plant and equipment	**2**	—
Additions to intangibles	**(31)**	(37)
Changes in non-cash working capital	**(8)**	37
Other	**7**	1
Cash flows used in investing activities	**(331)**	(314)
Financing activities		
Net repayment of short-term debt	**—**	(19)
Repayment of lease liabilities	**(1)**	(1)
Dividends paid on equity preferred shares	**(2)**	(2)
Dividends paid to Class A and Class B share owner	**—**	(148)
Interest paid	**(90)**	(94)
Other	**(3)**	(1)
Cash flows used in financing activities	**(96)**	(265)
Decrease in cash position	**(83)**	(182)
Beginning of period	**12**	170
End of period	**(71)**	(12)