CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021.

This MD&A was prepared as of February 23, 2022, and should be read with the Company's audited consolidated financial statements (2021 Consolidated Financial Statements) for the year ended December 31, 2021. Additional information, including the Annual Information Form (2021 AIF) that will be filed on March 31, 2022, is available on SEDAR at www.sedar.com.

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.

TABLE OF CONTENTS

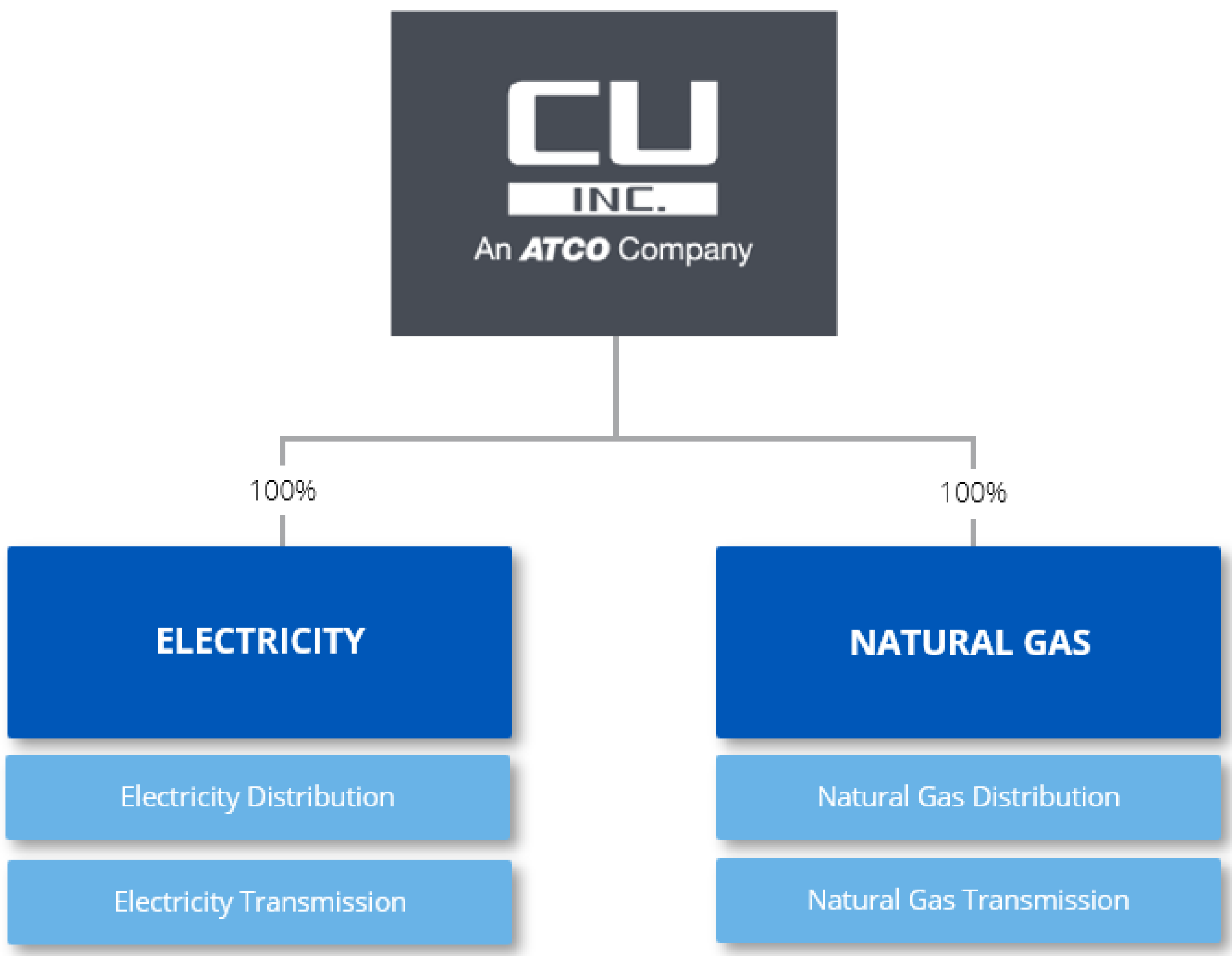
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 3,200 employees and assets of $18 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 2021 Consolidated Financial Statements include the accounts of CU Inc. and all of its subsidiaries. The 2021 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar.

CU INC. STRATEGIES

Innovation, growth and financial strength provide the foundation from which we have built our Company. Our long-term success depends on our ability to continue offering our customers premier, comprehensive and integrated solutions to meet their needs.

These strategic imperatives are supported by our unwavering commitment to operational excellence, our customers, our people and the communities that we are privileged to serve.

CORPORATE PILLARS

Innovation

We seek to create an inclusive work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to applied research and development, we are able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

Growth

Our long-term strategy is focused on sustainable growth. We protect our core utility assets and invest in activities aimed at advancing the energy transition and ensuring long-term resiliency. By optimizing current assets and adding new growth platforms, while consistently delivering reliable, safe, cleaner, and affordable energy for our customers, CU Inc. will continue to drive cash flow and earnings to improve financial strength and growth capacity.

We pursue the acquisition and development of complementary assets and businesses that have future growth potential and provide long-term value.

Financial Strength

Financial strength is the bedrock of our current and future success. It ensures that we have the financial capacity to fund existing and future capital investments through a combination of predictable cash flows from operations, cash balances on hand, credit facilities and access to capital markets. It enables us to sustain our operations and to grow through economic cycles, thereby providing long-term financial benefits.

We continuously review CU Inc.'s holdings to evaluate opportunities to sell mature assets and recycle the proceeds into growing areas of the Company. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across the Company.

Operational Excellence

We achieve operational excellence through high service, reliability, and product quality for our customers and the communities we serve. We are uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize our environmental impact. We ensure the timely supply of goods and services that are critical to our customers' ability to meet their core business objectives.

Community Involvement

We are committed to a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community involvement creates the opportunity to develop partnerships with Indigenous and community groups and build ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. We also engage with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization. We encourage our employees to participate in community initiatives that will serve to benefit non-profit organizations through volunteer efforts, and the provision of products and services in-kind.

SUSTAINABILITY PILLARS

CU Inc. conducts business in a manner that reflects our values. Integrity, agility, collaboration and caring—these foundational principles help us deliver on our commitment to sustainability. We report on five focus areas: Energy Transition, Climate Change & Environmental Stewardship, Operational Reliability & Resilience, People and Community & Indigenous Relations.

Strategic Environmental, Social and Governance (ESG) Targets For 2030

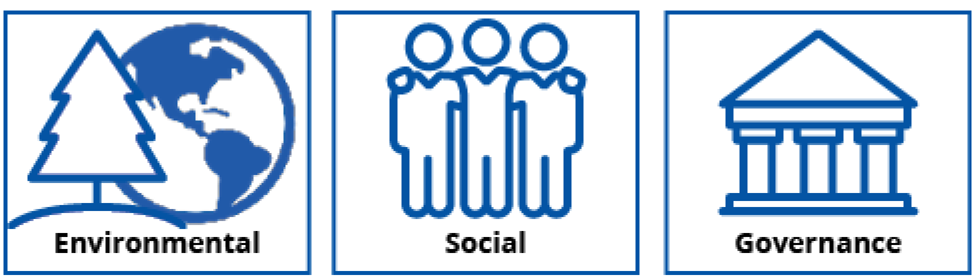
In January 2022, CU Inc.'s ultimate parent company, ATCO, announced an initial set of 2030 environmental, social and governance targets, and a commitment to achieve net zero greenhouse gas (GHG) emissions by 2050.

ATCO's 2030 ESG targets include reducing its operational and customer emissions, growing its renewable energy footprint, increasing economic benefits for Indigenous partners, continuing its focus on safety, and further promoting diversity, equity, and inclusion in the workplace.

The 2050 net zero commitment builds upon ATCO's significant progress in recent years in decarbonizing its portfolio, including reductions in operational GHG emissions.

ATCO (with the support of CU Inc.) is actively pursuing several pathways to further reduce its operational emissions, as well as its customers' emissions, by accelerating the deployment and use of cleaner fuels (hydrogen and renewable natural gas), renewable energy, energy infrastructure and storage (including carbon capture technologies), energy efficiency and carbon offsets. In support of its net zero commitment, ATCO is also working with all levels of government to advocate for enabling policy and regulation, and to identify barriers that impede cost-effective, economy-wide decarbonization. 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.

ATCO continues to evaluate further ESG targets and conduct additional analysis with respect to the Company's 2050 net zero commitment. Additional information and progress towards ESG targets will be included in ATCO's annual Sustainability Report, which will be available in May 2022.



FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

CU Inc.'s financial and operational achievements in 2021 relative to the strategies outlined above are included in this MD&A, the 2021 Consolidated Financial Statements and the forthcoming 2021 AIF.

More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

CU INC. SCORECARD

The following scorecard outlines our performance in 2021.

Target Met | Target Partially Met | Target Not Met

STRATEGIC PRIORITIES	2021 TARGET		2021 PERFORMANCE
INNOVATION			
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs.		
	• Continue to support communities and customers through the deployment of cleaner energy solutions.	Target Met	The Vuntut Gwitchin First Nation and CU Inc. announced the completion of Canada's most northerly off-grid solar project, reducing diesel use by 189,000 litres annually in Old Crow, Yukon and providing a clean energy source for decades to come.
	• Explore further opportunities to invest in clean fuel initiatives such as hydrogen and renewable natural gas.	Target Met	CU Inc. continued execution of a hydrogen blending project in Fort Saskatchewan, Alberta, that was advanced in 2020. Once complete, the project will be Canada's largest hydrogen blending project.

STRATEGIC PRIORITIES	2021 TARGET		2021 PERFORMANCE
GROWTH			
Regulated and long-term contracted capital investment	Continue to strategically invest in technology and the modernization of both the natural gas and electricity networks to enhance sustainability and flexibility while reducing the long term need for additional utility infrastructure, resulting in lower costs and an improved experience for customers.		Continued progression on the digitization of the grid: • Continued deployment of Advanced Metering Infrastructure (AMI) across our service territory. The communities of Grande Prairie and Chipewyan Lake are now complete. • Progressing on the Automated Distribution Management System (ADMS) that will orchestrate the delivery of electricity across a multi-directional flowing grid. CU Inc. announced the acquisition of the Pioneer Pipeline in 2020 and closed this transaction on June 30, 2021. The 131-km natural gas pipeline has been incorporated into NOVA Gas Transmission's (NGTL) and ATCO's Alberta regulated natural gas transmission systems to provide reliable natural gas supply to TransAlta's power generating units at Sundance and Keephills, facilitating the conversion of these coal plants to cleaner-burning natural gas. Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission will transfer to NGTL the 30-km segment of pipeline in 2022 that is located in the NGTL footprint. The pipeline transfer was approved by the Canada Energy Regulator on December 22, 2021.
	Continue to advance replacement and improvement projects in the Utilities business to ensure that the safety and reliability of our gas and electricity systems are properly maintained and managed.		The ongoing Urban Pipeline Replacement (UPR) Program in Alberta consists of the removal of the remaining high-pressure service pipe, installation of remaining stations, and clean-up efforts. The project is expected to be completed in 2022 and will have removed a total of 310-km upon completion.
FINANCIAL STRENGTH			
Credit rating	Maintain investment grade credit rating.		Maintained 'A (high)' long-term credit rating with a stable trend with DBRS Limited. Maintained 'A-' long-term issuer credit rating with a stable outlook on CU Inc. with Standard & Poors.
Access to capital markets	Access capital at attractive rates.		In 2021, CU Inc. raised $460 million in 30-year debentures at a rate of 3.174 per cent. The issue was oversold and completed at an attractive spread of 138 basis points above Government of Canada 30-year bond rates.

STRATEGIC PRIORITIES	2021 TARGET		2021 PERFORMANCE
OPERATIONAL EXCELLENCE			
Lost-time incident frequency: employees **Total recordable incident frequency: employees**	Compare favourably to safety benchmarks.	●	Our lost-time incident frequency compares favourably to benchmarks such as Alberta Occupational Health and Safety, US private industry, and industry best practice rates. Our lost-time incident frequency in 2021 was 0.18/200,000 hours worked. Our total recordable incident frequency in 2021 compares favourably to benchmarks such as US private industry and industry best practice rates. Our total recordable incident frequency in 2021 was 1.62 incidents/200,000 hours worked.
Customer satisfaction	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years.	●	Within Electricity and Natural Gas Distribution, more than 97 per cent of customers agreed that CU Inc. provides good service. These results compare favourably to industry averages and are consistent with previous years.
Organizational transformation	Streamline and gain operational efficiencies. • Continue to optimize enterprise resource planning, workforce and asset management, customer information systems and computerized maintenance management systems.	●	The Company continued implementation of a Workforce and Asset Management program for its electricity and natural gas businesses to advance digitalization and data analytics. This technology will help to optimize resources, and digitize information and processes thereby providing a means to track, manage, and dispatch work to field-based employees more efficiently. The natural gas business is expected to complete implementation by 2022, followed by the electricity business in 2023. CU Inc. implemented a Customer Information System (CIS) replacement program. CIS holds our metering asset information, collects meter reads, calculates billing, and applies rates and production tariff bills for retailers. The replacement for both Natural Gas and Electricity is well underway, and the projects are on-track to go-live in 2022.

STRATEGIC PRIORITIES	2021 TARGET		2021 PERFORMANCE
COMMUNITY INVOLVEMENT			
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.		Across our operations, we awarded contracts of approximately \$100 million for Indigenous and Indigenous-affiliated contractors in 2021. \$64,500 was awarded to 52 students across Canada, including the territories, through the ATCO Indigenous Education Awards Program. A total of 5,280 employees participated in one of the many Indigenous training courses offered in 2021 through virtual classroom and training platforms.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.		With the combined efforts of our employees around the world, ATCO pledged more than \$2.97 million to support hundreds of community charities through our annual ATCO EPIC campaign, taking the program's cumulative fundraising total to over \$50 million since its inception in 2006. The ATCO Giving Gardens at Spruce Meadows was created in spring 2021 as a way to weave sustainability, volunteerism and generosity into one great initiative by providing fresh produce to Calgary's vulnerable seniors and veterans. ATCO provided 4,720 meals to seniors and veterans through our partnerships with the Calgary Seniors' Resource Society and the Homes For Heroes Foundation in Calgary. ATCO's Giving Gardens supplied the beets, potatoes, and squash towards these meals.

STRATEGIC PRIORITIES FOR 2022

The following table outlines our strategic priorities for 2022.

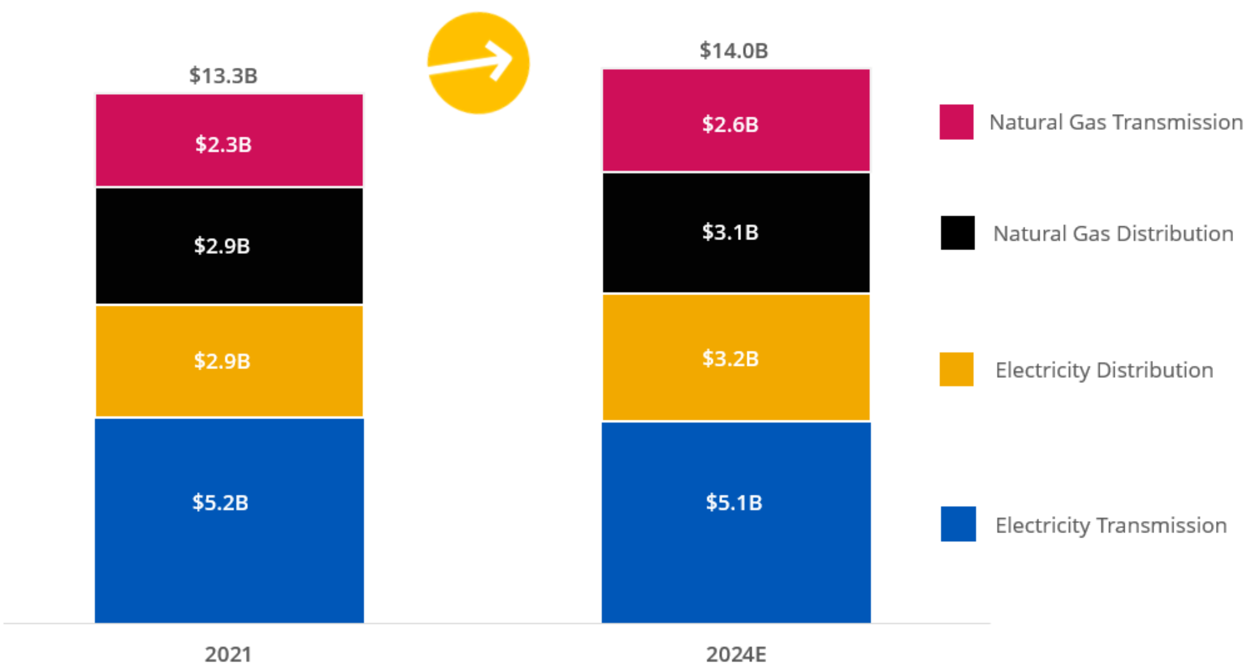
INNOVATION	
New and existing products and services	Continue to progress energy transition strategies to increase ownership, develop or manage renewable generation, and/or modernize natural gas and/or electricity delivery. Continue to prioritize a strategic role in working with remote communities to reduce their reliance on diesel fuels in a way that continues to support economic growth, energy independence, reconciliation and community building with Indigenous peoples.
GROWTH	
Regulated and long-term contracted capital investment	Continue to strategically invest in technology and the modernization of both the natural gas and electricity networks to enhance sustainability and flexibility. Continue to advance replacement and improvement projects in the Utilities business to ensure that the safety and reliability of our gas and electricity systems are properly maintained and managed.
FINANCIAL STRENGTH	
Credit rating	Maintain investment grade credit rating.
Access to capital markets	Continue to manage liquidity and access to capital in a prudent manner that facilitates strong access to capital at appropriate rates.
OPERATIONAL EXCELLENCE	
Lost-time and total recordable incident frequency: employees	Compare favourably to safety benchmarks.
Customer satisfaction	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years.
Organizational transformation	Streamline and gain operational efficiencies by continuing to optimize enterprise resource planning, workforce and asset management, customer information systems and computerized maintenance management systems.
COMMUNITY INVOLVEMENT	
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.

CAPITAL EXPENDITURE PLANS

In the 2022 to 2024 period, CU Inc. expects to invest approximately $3.1 billion in regulated utility capital growth projects, of which $1.0 billion relates to Electricity Distribution, $0.7 billion to Electricity Transmission, $0.9 billion to Natural Gas Distribution, and $0.5 billion to Natural Gas Transmission.

Mid-year rate base is equal to the total net capital expenditure 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.

MID-YEAR RATE BASE GROWTH (C$ Billions)



UTILITIES PERFORMANCE

REVENUES

Revenues of $826 million and $2,823 million in the fourth quarter and full year of 2021 were $87 million and $93 million higher compared to the same periods in 2020 mainly due to higher flow-through revenues in the Electricity Distribution and Natural Gas Distribution businesses, and the timing of prior period costs recovered in Natural Gas Distribution.

Revenue growth for Electricity and Natural Gas Distribution in the fourth quarter and full year of 2021 has been deferred as a result of our decision to provide rate relief to customers in light of the current COVID-19 global pandemic and the economic situation in Alberta. The AUC issued a decision directing the Company to collect the 2021 deferred amounts commencing January 1, 2022.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Electricity						
Electricity Distribution [1]	**37**	37	—	**151**	131	20
Electricity Transmission [1]	**35**	42	(7)	**152**	174	(22)
Total Electricity	**72**	79	(7)	**303**	305	(2)
Natural Gas						
Natural Gas Distribution [1]	**72**	79	(7)	**142**	146	(4)
Natural Gas Transmission [1]	**20**	22	(2)	**81**	89	(8)
Total Natural Gas	**92**	101	(9)	**223**	235	(12)
Corporate & Other and Intersegment Eliminations	**—**	(1)	1	**(3)**	(6)	3
Total Utilities [2]	**164**	179	(15)	**523**	534	(11)

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

Utilities adjusted earnings of $164 million in the fourth quarter of 2021 were $15 million lower than the same period in 2020 mainly due to timing of operating costs.

Utilities adjusted earnings of $523 million in the full year of 2021 were $11 million lower than the same period in 2020 mainly due to the impact of the Electricity Transmission 2018-2019 GTA Compliance Filing decision and the 2020-2022 GTA Compliance Filing decision received in 2021. Combined, these decisions included a $12 million reduction of earnings related to prior periods.

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 $37 million in the fourth quarter of 2021 were comparable to the same period in 2020.

Electricity Distribution adjusted earnings of $151 million in the full year of 2021 were $20 million higher compared to the same period in 2020 mainly due to cost efficiencies.

Electricity Transmission

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

Electricity Transmission adjusted earnings of $35 million in the fourth quarter of 2021 were $7 million lower than the same period in 2020 mainly due to timing of operating costs.

Electricity Transmission adjusted earnings of $152 million in the full year of 2021 were $22 million lower than the same period in 2020. Lower earnings were mainly due to the impact of the Electricity Transmission 2018-2019 GTA Compliance Filing decision received in the second quarter of 2021, and the 2020-2022 GTA Compliance Filing decision received in the third quarter of 2021. Combined, these decisions included a $12 million reduction of earnings related to prior periods.

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 $72 million in the fourth quarter of 2021 were $7 million lower than the same period in 2020 mainly due to timing of operating costs.

Natural Gas Distribution adjusted earnings of $142 million in the full year of 2021 were $4 million lower than the same period in 2020 mainly due to higher operating costs, partially offset by growth in rate base.

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 $20 million and $81 million in the fourth quarter and full year of 2021 were $2 million and $8 million lower than the same periods in 2020. Lower earnings were mainly due to the impact of the 2021-2023 General Rate Application which included operating cost efficiencies implemented in prior periods that are being passed on to customers, partially offset by growth in rate base.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the fourth quarter and full year of 2021 were $1 million and $3 million higher than the same period in 2020 mainly due to the timing of certain expenses.

RECENT DEVELOPMENTS

Executive Appointment

On October 1, 2021, the Board of Directors of CU Inc. appointed Brian Shkrobot to the position of Executive Vice President & Chief Financial Officer.

Old Crow Solar Development Project

In August 2021, the Vuntut Gwitchin First Nation and CU Inc.'s parent company, Canadian Utilities announced the completion of Canada's most northerly off-grid solar project, reducing diesel use by 189,000 litres annually in Old Crow, Yukon and providing a clean energy source for decades to come.

This project showcases a first-of-its-kind Electricity Purchase Agreement. Vuntut Gwitchin will serve as the Independent Power Producer, owner and operator of the solar facility and ATCO Electric Yukon will purchase the solar electricity generated for the next 25 years and feed it into the grid for redistribution to the community.

This facility, similar to the Fort Chipewyan Solar Farm in Northern Alberta, fosters community ownership and self-sustaining economic development through job creation, investment in infrastructure, and revenue from the sale of renewable energy.

Energy projects like this are models of effective collaboration to enable and accelerate the clean energy transition. The Company intends to replicate its success with many of the other Northern Communities reliant on diesel power.

Old Crow Solar Project - Old Crow, Yukon

REGULATORY INFORMATION

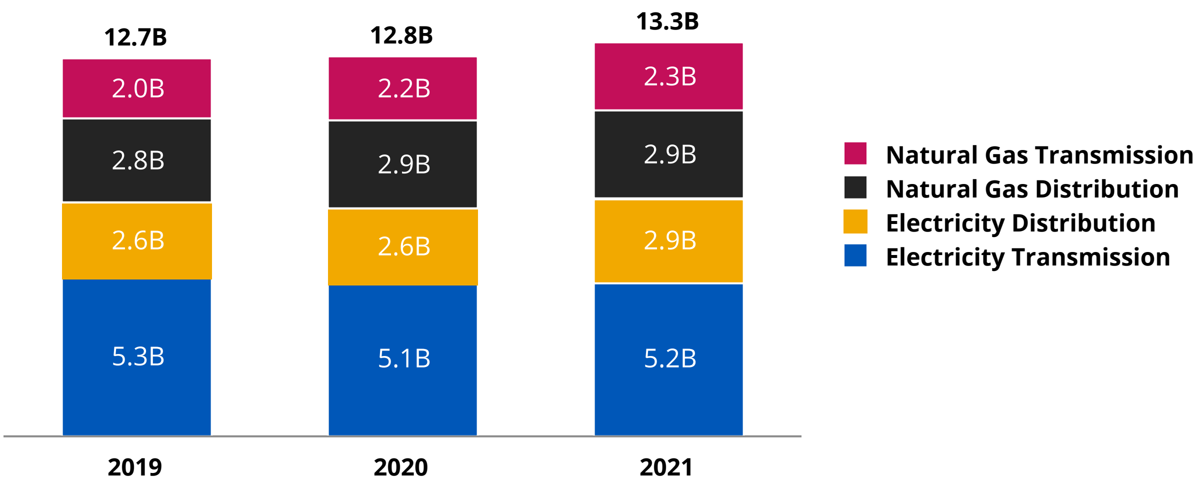
Regulated Business Models

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

Natural Gas Transmission and Electricity Transmission operate under cost of service (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 performance-based regulation (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 do 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.

Regulated Utilities Mid-Year Rate Base ($ Billions)



Generic Cost of Capital Proceeding (GCOC)

In August 2018, the AUC issued a decision approving a Return on Equity (ROE) of 8.5 per cent and capital structure of 37 per cent equity for the 2018, 2019 and 2020 periods for all Alberta Utilities. On October 13, 2020 and March 4, 2021, the AUC issued the decisions for 2021 and 2022, respectively, approving the extension of the current ROE of 8.5 per cent and capital structure of 37 per cent equity on a final basis. The AUC commenced a new GCOC process in January 2022 to address the ROE and equity thickness for 2023 and beyond.

Performance Based Regulation

Under the 2018 to 2022 second generation PBR framework, electricity and natural gas distribution utility rates are adjusted by a formula that estimates annual inflation and assumes productivity improvements.

	PBR Second Generation
Timeframe	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indices (AWE and CPI) adjusted annually
Productivity Adjuster (X Factor)	0.30%
O&M	Based on the lowest annual actual O&M level during 2013-2016, adjusted for inflation, growth and productivity to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Costs	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital costs for the period 2013-2016. The K Bar is calculated annually and adjusted for the actual weighted average cost of capital (WACC) • Significant capital costs that are extraordinary, not previously incurred and required by a third party recovered through a "Type I" K Factor
ROE Used for Going-in Rates	• 8.5% • + 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019
Efficiency Carry-over Mechanism (ECM)	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
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	2018: 8.5% excluding impact of ECM 2019: 8.5% excluding impact of ECM 2020 - 2022: 8.5%

Common Matters

2021 Rate Relief Application

On March 1, 2021, CU Inc. filed a 2021 Rate Relief Application for Electricity Distribution and Natural Gas Distribution to postpone rate increases for the full year 2021 and collect the deferred amounts commencing in 2023 for no more than a 5-year period. On June 18, 2021, the AUC issued a decision approving the requested rate relief, but directed CU Inc. to collect the 2021 deferred amounts commencing January 1, 2022, over a short duration, without exceeding a prescribed maximum increase in any year during the collection process. CU Inc. filed its 2022 PBR Rates applications on September 10, 2021, requesting recovery over the years 2022 and 2023 for Electricity Distribution and full recovery in 2022 for Natural Gas Distribution. The AUC issued its decisions in December 2021, approving the 2022 PBR rates for Electricity Distribution and Natural Gas Distribution as filed.

Distribution Regulatory Framework - Post 2022

On June 18, 2021, the AUC issued a decision providing direction regarding the 2023 COS application process. Each distribution utility is to present its application using an AUC-developed template with a prescribed minimum level of detail. On November 15, 2021, Electricity Distribution filed a 2023 COS application requesting, among other things, approval of a new grid modernization capital program to ensure that the grid can safely and reliably accommodate changing customer behaviours associated with decarbonization. On December 15, 2021, Natural Gas Distribution filed a 2023 COS application which includes a request for approval of a new capital program for the introduction of hydrogen into its distribution system in order to meet government-mandated net-zero emissions targets. Decisions from the AUC are expected in the third quarter of 2022.

On June 30, 2021, the AUC issued a decision relating to the Evaluation of Performance-Based Regulation in Alberta. The Commission determined that PBR has achieved many of the set principle objectives and that a third PBR term (PBR3) will commence in 2024 after a one year COS rebasing in 2023. A future generic proceeding will be initiated in the third quarter of 2022 to determine the parameters of the third generation PBR plan, including a review of incremental capital funding provisions, the inflation (I) and productivity (X) factors, and consideration of an earnings sharing mechanism.

Electricity Transmission

2020-2022 General Tariff Application (GTA)

In October 2019, Electricity Transmission filed a GTA for its operations for 2020, 2021, and 2022. The decision was received in March 2021 approving the vast majority of requested capital expenditures and operating costs, as filed. Electricity Transmission filed its compliance filing on April 19, 2021 and on September 1, 2021, the AUC issued a decision which determined Electricity Transmission's final revenue requirement for 2020 and 2021. The impact to 2021 adjusted earnings as a result of this decision included a decrease of $4 million, all of which relates to prior periods.

2018-2019 General Tariff Application

On June 29, 2021, the AUC issued a decision on the 2018-2019 GTA Compliance Filing which determined Electricity Transmission's final revenue requirement for 2018 and 2019. The impact of this decision is a decrease to 2021 adjusted earnings of $8 million, all of which relates to prior periods.

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

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

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of $14 million (after-tax) due to the potential outcome of the proceeding. As this proceeding is not in the normal course of business, these costs have been excluded from adjusted earnings.

NATURAL GAS TRANSMISSION

Pioneer Pipeline Acquisition

In the third quarter of 2020, Natural Gas Transmission entered into an agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation, subject to customary conditions including regulatory approvals by the AUC and Alberta Energy Regulator.

The 131-km natural gas pipeline runs from the Drayton Valley area to the Wabamun area west of Edmonton. On June 15, 2021, the AUC issued a decision approving the acquisition of the pipeline and associated integration costs, totaling $265 million, and the corresponding revenue requirement for 2021 to be included in Natural Gas Transmission's rates.

Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission will transfer to Nova Gas Transmission Ltd. (NGTL) the 30-km segment of pipeline that is located in the NGTL footprint for approximately $65 million.

The transaction to acquire the Pioneer Pipeline closed in 2021. The transfer to NGTL received approval from the Canada Energy Regulator on December 22, 2021, and is expected to close in the first quarter of 2022. The Pioneer Pipeline has been incorporated into NGTL's and CU Inc.'s Alberta regulated natural gas transmission systems to provide reliable natural gas supply to TransAlta's power generating units at Sundance and Keephills, facilitating the conversion of these coal plants to cleaner-burning natural gas.

Natural Gas Transmission 2021-2023 General Rate Application (GRA)

In June 2020, Natural Gas Transmission filed a GRA for the period 2021-2023. An AUC decision was received in March 2021, approving the vast majority of requested capital expenditures and operating costs as filed, which included operating cost efficiencies implemented in prior periods that are being passed on to customers. On June 15, 2021, the AUC approved the acquisition of the Pioneer Pipeline including the associated integrated costs. On January 12, 2022, the AUC approved Natural Gas Transmission's application reflecting the acquisition of Pioneer Pipeline in its 2021-2023 revenue requirement.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

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

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

Sustainability Reporting and ESG Targets

ATCO's 2021 Sustainability Report, which will be published in May 2022, will focus on the following material topics:

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

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

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

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

Climate Change and Energy Transition

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

POLICY/REGULATORY UPDATE

ATCO actively and constructively works with all levels of government to advocate for enabling policy and regulation, and to identify barriers that impede cost-effective, economy-wide decarbonization. ATCO participates in a wide number of discussions, and the following are examples of where we are focusing our efforts.

Carbon Pricing/Output-Based Pricing Systems

In April 2021, the carbon price in Canada increased from $30 to $40 per tonne, and by 2022 it is expected to reach $50 per tonne. In December 2020, the Government of Canada announced their plan on climate change, proposing to increase the carbon price by $15 per tonne each year starting in 2023, rising to $170 per tonne by 2030.

In December 2021, the Government of Alberta, confirmed that the Technology, Innovation and Emissions Reduction (TIER) regulation will increase from $40 per tonne in 2021 to $50 per tonne in 2022, meeting the federal government's stringency requirements for the emission sources they cover. Accordingly, the federal fuel charge continues to apply in Alberta, but not the federal Output-Based Pricing System. In the future, as carbon price increases and new updated initiatives are put in place by the federal government, TIER will also need to be updated to meet the federal government's stringency requirements.

Net-Zero Emissions Accountability Act

On June 29, 2021, the Net-Zero Emissions Accountability Act came into effect outlining the Government of Canada's commitment to achieve net-zero GHG emissions by 2050, as well as a 2030 target under the Paris Agreement to reduce GHG emissions by 40 to 45 per cent from 2005 levels. The Act establishes a legally binding process to set five-year national emissions-reduction targets, with the 2030 plan due by the end of March 2022. The Act also requires national emissions reduction targets for 2035, 2040, and 2045, ten years in advance, with credible, science-based emissions reduction plans to achieve it.

The Government of Canada is currently consulting on initiatives in early 2022 as part of their commitments to the emission-reduction targets. If these initiatives move forward, it may create both opportunities and challenges directly and indirectly for CU Inc. Some of these initiatives include: transitioning to a net-zero emitting electricity grid by 2035; developing emission standards for different categories of vehicles and mandating a percentage of zero emission vehicles by specific dates; capping emissions from the oil and gas sector at current levels and declining at the pace to get to net zero by 2050; and developing a plan to reduce methane emissions across the broader Canadian economy in support of the Global Methane Pledge and Canada's climate plan goals to reduce oil and gas methane emissions by at least 75 percent below 2012 levels by 2030.

Methane Reductions

In December 2020, Alberta reached equivalency with federal methane regulations to reduce methane emissions by 40 to 45 per cent from 2012 levels by 2025. CU Inc. continues to implement programs to reduce or eliminate fugitive and venting emissions in our Natural Gas Transmission and Distribution businesses.

Clean Fuel Standards

In July 2021, the Government of Canada announced that the scope of the Clean Fuel Standards (CFS) was further refined to cover only gasoline and diesel liquid fossil fuels used predominately in transportation (with an exemption for diesel used in space heating). The regulations are expected to come into effect in late 2022.

Hydrogen Roadmap

In December 2020, the Government of Canada released their Hydrogen Strategy for Canada. In November 2021, the Government of Alberta released the Alberta Hydrogen Roadmap outlining the Government's approach to developing hydrogen use and production in Alberta. The Hydrogen Roadmap is an action plan that integrates hydrogen with the province's existing energy infrastructure. It is a key part of Alberta's Recovery Plan and will be implemented in a phased approach. In the first phase, Alberta will establish policy foundations, close technology gaps with research and innovation, reduce the carbon intensity of existing hydrogen production, and deploy clean hydrogen into end-use markets. The second phase will focus on growth and commercialization. These actions will be implemented by working closely with partner agencies, federal, provincial and municipal governments, industries and other key partners and stakeholders.

ENERGY TRANSITION HIGHLIGHTS

CU Inc. continues to build its renewable energy portfolio and enable customers to integrate renewable energy options. Renewable energy initiatives are discussed in the "Recent Developments" section, in this MD&A, and include the example highlighted below.

In August 2021, the Vuntut Gwitchin First Nation and CU Inc. completed Canada's most northerly off-grid solar project, reducing diesel use by 189,000 litres annually in Old Crow, Yukon and providing the community with clean energy for decades to come.

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.

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 Coal-to-gas electricity generation conversions by other companies present opportunities for increased demand for natural gas transmission infrastructure investment in the near to medium term Electricity grid modernization Hydrogen economy development	Active participation in policy development, industry groups, and regulatory discussions Business diversification Hydrogen research and projects
Transitional	**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
Transitional	**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
Transitional	**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 Rapidly deployable structures and logistics services	Climate change resiliency efforts Emergency Response & Preparedness plans and training

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 2021 and 2020 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)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Operating costs	**402**	384	18	**1,395**	1,309	86
Depreciation and amortization	**148**	135	13	**547**	520	27
Net finance costs	**100**	94	6	**372**	368	4
Income tax expense	**44**	31	13	**122**	129	(7)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $18 million and $86 million in the fourth quarter and full year of 2021 compared to the same periods in 2020 mainly due to higher flow-through natural gas transmission costs.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $13 million in the fourth quarter of 2021 compared to the same period in 2020 mainly due to higher depreciation in Electricity Transmission as a result of a project cancellation.

Depreciation and amortization increased by $27 million for the full year of 2021 compared to the same period in 2020 mainly due to higher depreciation in Electricity Transmission as a result of a project cancellation and ongoing capital investment.

NET FINANCE COSTS

Net finance costs increased by $6 million and $4 million in the fourth quarter and full year of 2021 compared to the same periods in 2020 mainly due to lower interest expense capitalized to capital projects.

INCOME TAX EXPENSE

Income taxes were higher by $13 million in the fourth quarter of 2021 compared to the same period in 2020 mainly due to higher IFRS earnings before income taxes.

Income taxes were lower by $7 million in the full year of 2021 compared to the same period in 2020 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

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

The following table shows the current credit ratings assigned to CU Inc.

	DBRS	S&P
CU Inc.		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2

On July 30, 2021, S&P Global Ratings affirmed CU Inc.'s 'A-' long-term issuer credit rating and stable outlook.

On July 22, 2021, DBRS Limited affirmed its ‘A (high)’ long-term corporate credit rating and stable outlook on CU Inc.

LINES OF CREDIT

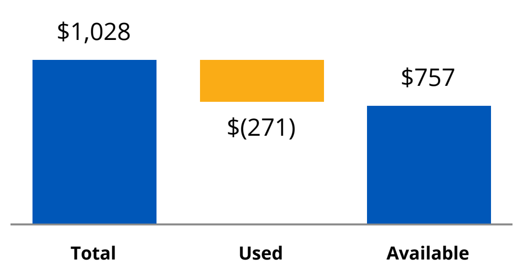
At December 31, 2021, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	206	694
Uncommitted	**128**	65	63
Total	**1,028**	271	757

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

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

Lines of Credit ($ millions)



CONSOLIDATED CASH FLOW

At December 31, 2021,the Company's cash position was $52 million, a increase of $74 million compared to December 31, 2020. Major movements are outlined in the following table:

($ millions)	2021	2020	Year Ended December 31 Change
Cash flows from operating activities	**1,480**	1,461	19
Net issue of long-term debt	**301**	50	251
Issue of short-term debt	**206**	—	206
Cash used for capital expenditures	**(1,006)**	(806)	(200)
Dividends paid to Class A and Class B share owners	**(371)**	(420)	49
Interest paid	**(364)**	(371)	7
Redemption of equity preferred shares	**(79)**	—	(79)
Other	**(93)**	(7)	(86)
Increase (decrease) in cash position	**74**	(93)	167

Cash Flows from Operating Activities

Cash flows from operating activities of $434 million and $1,480 million in the fourth quarter and the full year of 2021 were comparable to the same periods in 2020.

Cash flows from operating activities in 2021 are adversely impacted as a result of CU Inc.'s decision to provide rate relief to customers through the deferral of rate increases for Electricity Distribution and Natural Gas Distribution which will be collected from customers starting in 2022.

Cash Used for Capital Expenditures

Cash used for capital expenditures was $223 million in the fourth quarter of 2021, $8 million higher compared to the same period in 2020 mainly due to ongoing capital investment.

Cash used for capital expenditures was $1,006 million in the full year of 2021, $200 million higher compared to the same period in 2020, mainly due to the acquisition of the Pioneer Pipeline in the Natural Gas Transmission business.

Capital expenditures for the fourth quarter and full year of 2021 and 2020 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2021	2020	Change	2021	2020	Change
Electricity Distribution	**68**	56	12	**230**	221	9
Electricity Transmission	**25**	39	(14)	**120**	145	(25)
Natural Gas Distribution	**91**	71	20	**294**	237	57
Natural Gas Transmission	**39**	49	(10)	**362**	203	159
Total (1) (2)	**223**	215	8	**1,006**	806	200

(1) Includes additions to property, plant and equipment, intangibles, and $(2) million and $6 million (2020 - $2 million and $12 million) of capitalized interest during construction for the fourth quarter and full year of 2021. The $(2) million of capitalized interest during construction recognized in the fourth quarter relates to a project cancellation.

(2) Includes $31 million and $148 million for the fourth quarter and full year of 2021 (2020 - $24 million and $69 million) of capital expenditures that were funded with the assistance of customer contributions.

Base Shelf Prospectus - CU Inc. Debentures

On September 16, 2020, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.2 billion of debentures over the 25-month life of the prospectus. As of February 22, 2022, aggregate issuances of debentures were $610 million.

Preferred Shares - CU Inc.

Effective June 1, 2021, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset from 2.243 per cent to 2.292 per cent for a five-year period.

Redemption of Equity Preferred Shares to Parent Company

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

SHARE CAPITAL

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

At February 22, 2022, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended March 31, 2020 through December 31, 2021.

($ millions)	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Revenues	743	631	623	**826**
Earnings for the period	133	61	61	**132**
Adjusted earnings (loss)				
Electricity	85	73	73	**72**
Natural Gas	100	28	3	**92**
Corporate & Other and Intersegment Eliminations	(1)	(1)	(1)	**—**
Total adjusted earnings [1]	184	100	75	**164**

($ millions)	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Revenues	754	636	601	739
Earnings for the period	152	80	77	95
Adjusted earnings (loss)				
Electricity	78	78	70	79
Natural Gas	104	26	4	101
Corporate & Other and Intersegment Eliminations	(2)	(2)	(1)	(1)
Total adjusted earnings [1]	180	102	73	179

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

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

ADJUSTED EARNINGS

In the first quarter of 2020, Utilities adjusted earnings were positively impacted by cost efficiencies, rate base growth, and lower income taxes. Higher earnings were partially offset by the completion of ECM funding in 2019 for Electricity Distribution and Natural Gas Distribution.

In the second quarter of 2020, adjusted earnings in the Utilities were adversely impacted by the prior period impact of the Electricity Transmission 2018-2019 GTA decision received in the second quarter of 2019, the transition to APL operating activities by Electricity Transmission with completion of project management construction activities at the end of the first quarter of 2019, and the completion of the incremental ECM funding in 2019 for Electricity Distribution and Natural Gas Distribution.

In the third quarter of 2020, adjusted earnings in the Utilities were comparable to the same period in 2019.

In the fourth quarter of 2020, adjusted earnings in the Utilities were positively impacted mainly by cost efficiencies and rate base growth.

In the first quarter of 2021, adjusted earnings in the Utilities were higher compared to the same period in 2020 mainly due to continued cost efficiencies and rate base growth.

In the second quarter of 2021, adjusted earnings in the Utilities were lower compared to the same period in 2020 mainly due to the impact of the Electricity Transmission 2018-2019 GTA Compliance Filing decision received in the second quarter of 2021, partially offset by cost efficiencies.

In the third quarter of 2021, adjusted earnings in the Utilities were higher than the same period in 2020 mainly due to cost efficiencies, and continued growth in the regulated rate base.

In the fourth quarter of 2021, adjusted earnings in the Utilities were lower than the same period in 2020 mainly due to timing of operating costs.

EARNINGS FOR THE PERIOD

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

- Early Termination of the Master Service Agreements for Managed IT Services
    - In the fourth quarter of 2020, the Company's parent, Canadian Utilities Limited, signed an MSA with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) (IBM) to provide managed IT services. These services were previously provided by Wipro under a ten-year MSA expiring in December 2024. The Company recognized termination costs of $52 million (after-tax) in the fourth quarter of 2020 which represents managements' best estimate of the costs to exit the Wipro MSA.
    - The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and is now complete. In the fourth quarter and full year of 2021, the Company recognized transition costs of $6 million and $32 million (after-tax), respectively.
- AUC Enforcement Proceeding
    - In the fourth quarter of 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. This proceeding is to determine whether ATCO Electric failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the sole source contract for the Jasper interconnection project and the actions leading up to and including the filing of the 2018-2020 Deferral Account Application. This proceeding will also determine any future remedies that may be required.
    - AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of $14 million (after-tax) due to the potential outcome of the proceeding.

BUSINESS RISKS AND RISK MANAGEMENT

The Board of Directors 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 & Risk 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 & Risk 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. The following table outlines our current significant risks and associated mitigations.

Business Risk: Capital Investment		
Businesses Impacted:	**Associated Strategies:**	
• Utilities	• Growth	• Financial Strength

Description & Context

The Company is subject to the 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 certainty, pace of energy transition, commodity and environmental attribute price risk and climate risk.

Risk Management Approach

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

Planned capital investments for the Utilities are based on the following significant assumptions: projects identified by the AESO will proceed as currently scheduled; the remaining planned capital investments are required to maintain safe and reliable service and meet planned growth in the 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 believes these assumptions are reasonable.

Business Risk: Climate Change		
Businesses Impacted:	**Associated Strategies:**	
• Utilities	• Operational Excellence	• Innovation

Description & Context - Policy Risks

CU Inc. is subject to emission regulations, including carbon pricing, output-based performance standards, and other emission management policies. For example, in Alberta the output-based Technology Innovation and Emissions Reduction Regulations replaced the federal Output-Based Pricing System as of January 1, 2020.

Risk Management Approach - Policy Risks

The Company's exposure is mitigated 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.

Description & 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. Electricity transmission, distribution and pipeline assets above ground or on water crossings 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 within the code.

Prevention activities include Wildfire Management Plans and vegetation management at Electricity Transmission and Distribution operations. 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. 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.

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

Business Risk: Credit Risk	
Businesses Impacted:	**Associated Strategies:**
• Utilities	• Financial Strength

Description & 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

Cash and cash equivalents credit risk is reduced 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 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.

Business Risk: Cybersecurity	
Businesses Impacted:	**Associated Strategies:**
• Utilities	• Operational Excellence • Innovation

Description & Context

The Company's reliance on technology, which supports its information and industrial control systems, is subject to potential cyber-attacks including unauthorized access of confidential information and outage of critical infrastructure.

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.

Business Risk: Financing	
Businesses Impacted:	**Associated Strategies:**
• Utilities	• Financial Strength

Description & Context

The Company's financing risk relates to the price volatility and availability of external financing to fund the 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 also the relevant financing costs.

Risk Management Approach

To address this risk, the Company manages its capital structure to maintain strong investment grade credit ratings which 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.

Business Risk: Pandemic Risk		
Businesses Impacted:	**Associated Strategies:**	
• Utilities	• Growth	• Operational Excellence
	• Financial Strength	• Community

Description & 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 disruptions, inflation risk, labour shortages and shutdowns as a result of government regulation and prevention measures, increased strain on employees and compromised levels of customer service, any 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

CU Inc.'s investments are focused on regulated utilities, creating a resilient investment portfolio. In response to the COVID-19 pandemic, CU Inc.'s Pandemic Plan was activated in February 2020. 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 has been following recommendations by local and national public health authorities across the globe to adjust operational requirements as needed to ensure a coordinated approach across CU Inc. As a result of these efforts and the Company's experience in crisis response, CU Inc. has been able to minimize the impact of the current COVID-19 pandemic on the Company's businesses and the essential services it provides to customers.

Business Risk: Pipeline Integrity	
Businesses Impacted:	**Associated Strategies:**
• Utilities	• Operational Excellence • Community Involvement

Description & Context

Natural Gas Transmission and Natural Gas Distribution have significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can 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 Distribution and Natural Gas Transmission's Urban Pipeline Replacement and Integrity programs, and Natural Gas Distribution's Mains Replacement program. 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.

Business Risk: Political	
Businesses Impacted:	**Associated Strategies:**
• Utilities	• Growth • Operational Excellence • Financial Strength

Description & Context

Operations are exposed to a risk of change in the business environment due to political change. 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.

Business Risk: Regulated Operations		
Businesses Impacted:	**Associated Strategies:**	
• Utilities	• Growth • Financial Strength	• Operational Excellence

Description & Context

CU Inc. is subject to the 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. They are also subject to risk of the regulator's potential disallowance of costs incurred. Electricity Distribution and Natural Gas Distribution operate under performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery.

Risk Management Approach

The 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 generic cost of capital proceeding in Alberta. The 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 Utilities are proactive in demonstrating prudence and continuously look for ways to lower operating costs while maintaining service levels.

Business Risk: Technological Transformation and Disruption		
Businesses Impacted:	**Associated Strategies:**	
• Utilities	• Growth • Financial Strength	• Operational Excellence • Innovation

Description & 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.

Business Risk: Liquidity	
Businesses Impacted:	**Associated Strategies:**
• Utilities	• Financial Strength

Description & 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 provides 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 and preferred shares. 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, 2021, the Company's cash position was approximately $52.0 million and there were available committed and uncommitted lines of credit of approximately $0.8 billion which can be utilized for general corporate purposes.

Liquidity risk includes contractual financial obligations which the Company will meet with cash flow from operations, existing cash balances and external financing, if necessary. These contractual financial obligations for the next five years and thereafter are shown below.

($ millions)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027 and thereafter**
Financial Liabilities						
Accounts payable and accrued liabilities	450	—	—	—	—	—
Accounts payable to parent and affiliate companies	39	—	—	—	—	—
Short-term debt	206	—	—	—	—	—
Long-term debt:						
Principal	125	107	120	—	125	7,970
Interest expense	348	351	341	333	336	6,422
	1,168	458	461	333	461	14,392
Commitments						
Purchase obligations:						
Operating and maintenance agreements	314	311	271	41	32	92
Capital expenditures	268	—	—	—	—	—
Other	6	—	—	—	—	—
	588	311	271	41	32	92
Total	1,756	769	732	374	493	14,484

OTHER FINANCIAL AND NON-GAAP MEASURES

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

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

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

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the US accounting principles for rate-regulated activities. Management’s view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings for the period is presented in this MD&A. Adjusted earnings are presented in Note 3 of the 2021 Consolidated Financial statements.

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

Total of segments measures are most directly comparable to total earnings for the period. Comparable total of segments measures from 2020 have been calculated using the same composition and are disclosed alongside the current total of segments measures in this MD&A. A reconciliation of the total of segments measures with total earnings for the period is presented in this MD&A.

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

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

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

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

($ millions)					Three Months Ended December 31
2021 2020	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**374**	**454**	**—**	**(2)**	**826**
	361	378	—	—	739
Adjusted earnings (loss)	**72**	**92**	**—**	**—**	**164**
	79	101	(1)	—	179
Rate-regulated activities	**(17)**	**9**	**(1)**	**—**	**(9)**
	(6)	(20)	—	—	(26)
IT Common Matters decision	**(2)**	**(2)**	**—**	**—**	**(4)**
	(5)	(4)	—	—	(9)
Transition of managed IT services	**(2)**	**(4)**	**—**	**—**	**(6)**
	(23)	(29)	—	—	(52)
Dividends on equity preferred shares of the Company	**1**	**—**	**—**	**—**	**1**
	2	1	—	—	3
AUC enforcement proceeding	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**
	(1)	1	—	—	—
Earnings (loss) for the period	**38**	**95**	**(1)**	**—**	**132**
	46	50	(1)	—	95

($ millions) 2021 2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated Year Ended December 31
Revenues	**1,376**	**1,452**	**—**	**(5)**	**2,823**
	1,356	1,377	—	(3)	2,730
Adjusted earnings (loss)	**303**	**223**	**(3)**	**—**	**523**
	305	235	(6)	—	534
Rate-regulated activities	**(56)**	**(29)**	**—**	**—**	**(85)**
	(44)	(18)	—	—	(62)
IT Common Matters decision	**(8)**	**(6)**	**—**	**—**	**(14)**
	(11)	(8)	—	—	(19)
Transition of managed IT services	**(14)**	**(18)**	**—**	**—**	**(32)**
	(23)	(29)	—	—	(52)
Dividends on equity preferred shares of the Company	**5**	**4**	**—**	**—**	**9**
	6	5	—	—	11
AUC enforcement proceeding	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**
	(4)	(4)	—	—	(8)
Earnings (loss) for the period	**216**	**174**	**(3)**	**—**	**387**
	229	181	(6)	—	404

RATE-REGULATED ACTIVITIES

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

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

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

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

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

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

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**22**	19	3	**107**	78	29
Impact of colder temperatures (2)	**4**	—	4	**—**	2	(2)
Revenues to be billed in future periods						
Deferred income taxes (3)	**(32)**	(33)	1	**(103)**	(104)	1
Distribution rate relief (4)	**(24)**	—	(24)	**(119)**	—	(119)
Impact of warmer temperatures (2)	**—**	(5)	5	**(1)**	—	(1)
Settlement of regulatory decisions and other items (5)	**21**	(7)	28	**31**	(38)	69
	(9)	(26)	17	**(85)**	(62)	(23)

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

(2) *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) *During the fourth quarter and year ended December 31, 2021, Electricity Distribution and Natural Gas Distribution recorded a decrease in earnings of $24 million and $119 million related to interim rate relief for customers as applied for by the Company and approved by the AUC to hold current distribution base rates in place. These amounts will be recovered from customers in 2022.*

(5) *In 2021, Natural Gas Distribution collected $53 million related to depreciation and transmission rate riders, which was partly offset by a decrease in earnings of $28 million related to payments of transmission costs. In 2020, Electric Distribution recorded a decrease in earnings of $26 million related to payments to customers for transmission costs and capital related items.*

IT COMMON MATTERS DECISION

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amounts excluded from adjusted earnings in the fourth quarter and full year of 2021 was $4 million and $14 million (after-tax) (2020 - $9 million and $19 million).

TRANSITION OF MANAGED IT SERVICES

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

In the fourth quarter and full year of 2021, the Company recognized termination and transition costs of $6 million and $32 million (after-tax) (2020 - $52 million and $52 million).

AUC ENFORCEMENT PROCEEDING

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

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In the fourth quarter and full year of 2021, the Company recognized expenses of $14 million (after-tax) due to the potential outcome of the proceeding.

OTHER

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

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

($ millions)							**Three Months Ended December 31**
2021	**CU Inc.**						
2020	**Electricity**			**Natural Gas**			**Consolidated**
	Electric Distribution	**Electric Transmission**	**Consolidated Electricity**	**Natural Gas Distribution**	**Natural Gas Transmission**	**Consolidated Natural Gas**	
Adjusted earnings	**37**	**35**	**72**	**72**	**20**	**92**	**164**
	37	42	79	79	22	101	180
Rate-regulated activities	**(25)**	**8**	**(17)**	**15**	**(6)**	**9**	**(8)**
	(11)	5	(6)	(12)	(8)	(20)	(26)
IT Common Matters decision	**(1)**	**(1)**	**(2)**	**(2)**	**—**	**(2)**	**(4)**
	(3)	(2)	(5)	(3)	(1)	(4)	(9)
Transition of managed IT services	**(1)**	**(1)**	**(2)**	**(4)**	**—**	**(4)**	**(6)**
	(16)	(7)	(23)	(25)	(4)	(29)	(52)
Dividends on equity preferred shares of the Company	**1**	**—**	**1**	**—**	**—**	**—**	**1**
	1	1	2	—	1	1	3
AUC enforcement proceeding	**—**	**(14)**	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	—	(1)	(1)	—	1	1	—
Earnings for the period	**11**	**27**	**38**	**81**	**14**	**95**	**133**
	8	38	46	39	11	50	96

($ millions)

Year Ended December 31

2021 2020	CU Inc.						
	Electricity			**Natural Gas**			**Consolidated**
	Electric Distribution	**Electric Transmission**	**Consolidated Electricity**	**Natural Gas Distribution**	**Natural Gas Transmission**	**Consolidated Natural Gas**	
Adjusted earnings	**151**	**152**	**303**	**142**	**81**	**223**	**526**
	131	174	305	146	89	235	540
Rate-regulated activities	**(76)**	**20**	**(56)**	**(9)**	**(20)**	**(29)**	**(85)**
	(54)	10	(44)	10	(28)	(18)	(62)
IT Common Matters decision	**(4)**	**(4)**	**(8)**	**(5)**	**(1)**	**(6)**	**(14)**
	(6)	(5)	(11)	(6)	(2)	(8)	(19)
Transition of managed IT services	**(10)**	**(4)**	**(14)**	**(16)**	**(2)**	**(18)**	**(32)**
	(16)	(7)	(23)	(25)	(4)	(29)	(52)
Dividends on equity preferred shares of the Company	**2**	**3**	**5**	**3**	**1**	**4**	**9**
	2	4	6	3	2	5	11
AUC enforcement proceeding	**—**	**(14)**	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	(2)	(2)	(4)	(4)	—	(4)	(8)
Earnings for the period	**63**	**153**	**216**	**115**	**59**	**174**	**390**
	55	174	229	124	57	181	410

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 results of operations or financial condition, 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 2021 Consolidated Financial Statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 22 of the 2021 Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes judgments and estimates that could significantly 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.

ACCOUNTING CHANGES

At December 31, 2021, 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 2022 Consolidated Financial Statements once adopted.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2021, 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 in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. The controls also seek to assure this information 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, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2021, and ended on December 31, 2021, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's internal control over financial reporting 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, internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

As of December 31, 2021, management evaluated the effectiveness of the Company's internal control over financial reporting 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 internal control over financial reporting was effective at December 31, 2021.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", "goals", "targets", "strategy", "future", and similar expressions. In particular, forward-looking information in this MD&A includes, but is not limited to, references to general strategic plans and targets, including with respect to project and program implementations; projected expenses in connection with the described Alberta Utilities Commission proceedings; reducing GHG emissions; expected capital investment; and mid-year rate base growth forecasts.

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

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

CU Inc. has published its 2021 Consolidated Financial Statements and MD&A for the year ended December 31, 2021. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

AESO means Alberta Electric System Operator.

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

AUC means the Alberta Utilities Commission.

Average weekly earnings (AWE) is an indicator of short-term employee earnings growth.

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

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

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

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

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

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.

Earnings means Adjusted Earnings as defined in the Other Financial and Non-GAAP Measures section of this MD&A.

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

IFRS means International Financial Reporting Standards.

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

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

PBR means Performance Based Regulation.

APPENDIX 1

FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2021 and 2020 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2021**	**2020**
Revenues	**826**	739
Costs and expenses		
Salaries, wages and benefits	**(69)**	(58)
Energy transmission and transportation	**(68)**	(57)
Plant and equipment maintenance	**(56)**	(48)
Fuel costs	**(3)**	(3)
Purchased power	**(26)**	(26)
Depreciation and amortization	**(148)**	(135)
Franchise fees	**(76)**	(64)
Property and other taxes	**(17)**	(15)
Other	**(87)**	(113)
	(550)	(519)
Operating profit	**276**	220
Interest expense	**(100)**	(94)
Net finance costs	**(100)**	(94)
Earnings before income taxes	**176**	126
Income taxes	**(44)**	(31)
Earnings for the period	**132**	95

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2021	2020
Operating activities		
Earnings for the period	**132**	95
Adjustments to reconcile earnings to cash flows from operating activities	**299**	339
Changes in non-cash working capital	**3**	(23)
Cash flows from operating activities	**434**	411
Investing activities		
Additions to property, plant and equipment	**(200)**	(180)
Additions to intangibles	**(25)**	(33)
Changes in non-cash working capital	**(14)**	1
Other	**(1)**	—
Cash flows used in investing activities	**(240)**	(212)
Financing activities		
Issue of short-term debt	**206**	—
Issue of long-term debt	**1**	—
Repayment of long-term debt	**(160)**	(100)
Repayment of lease liabilities	**—**	(1)
Dividends paid on equity preferred shares	**(1)**	(3)
Dividends paid to Class A and Class B share owner	**(109)**	(335)
Interest paid	**(105)**	(110)
Other	**(2)**	—
Cash flows used in financing activities	**(170)**	(549)
Increase (decrease) in cash position	**24**	(350)
Beginning of period	**28**	328
End of period	**52**	(22)