DISCLAIMER

Due to uncertainty surrounding the application of recent amendments to the Competition Act (Canada), these documents are provided for historical information purposes only and do not constitute active or current representations of CU Inc. or any of its related parties. The purpose of these documents is to comply with disclosure requirements that were in effect on the date these documents were filed; CU Inc. undertakes no obligation to update such information except as required by applicable law. CU Inc. remains committed to taking steps to address climate change and continuing to engage in sustainability initiatives.

CU INC.

An ATCO Company

CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

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 six months ended June 30, 2020.

This MD&A was prepared as of July 29, 2020, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2020. Additional information, including the Company's previous MD&As, Annual Information Form (2019 AIF), and audited consolidated financial statements for the year ended December 31, 2019, is available on SEDAR at www.sedar.com. Information contained in the 2019 MD&A is not discussed in this MD&A if it remains substantially unchanged.

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

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

TABLE OF CONTENTS

	Page
Company Overview	2
Utilities Performance	3
Regulatory Developments	6
Sustainability, Climate Change and Energy Transition	7
Other Expenses and Income	8
Liquidity and Capital Resources	9
Share Capital	10
Quarterly Information	11
Non-GAAP and Additional GAAP Measures	12
Reconciliation of Adjusted Earnings to Earnings for the Period	13
Other Financial Information	17
Glossary	18

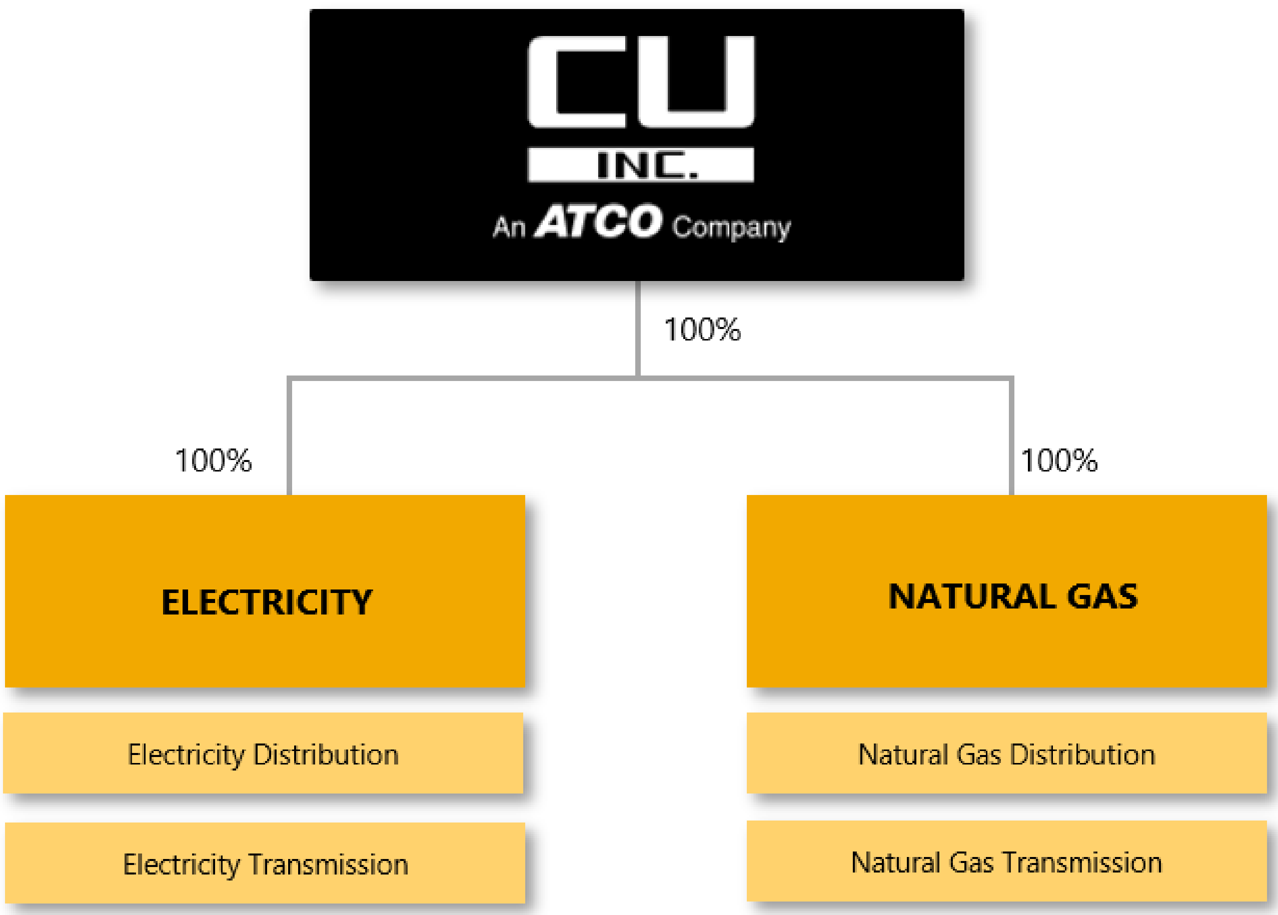
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 3,600 employees and assets of $17 billion comprised of rate-regulated utility operations in natural gas and electricity distribution and transmission. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

THE UTILITIES

The Utilities' 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 unaudited interim consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

UTILITIES PERFORMANCE

REVENUES

Revenues of $636 million and $1,390 million in the second quarter and first six months of 2020 were $2 million and $7 million lower than the same periods in 2019. Lower revenues were mainly due to the timing of settlements related to regulatory decisions and the completion of the PBR efficiency carry-over mechanism (ECM) funding in 2019, partially offset by growth in the regulated rate base.

ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Electricity						
Electricity Distribution	**32**	31	1	**67**	69	(2)
Electricity Transmission	**46**	59	(13)	**89**	104	(15)
Total Electricity	**78**	90	(12)	**156**	173	(17)
Natural Gas						
Natural Gas Distribution	**2**	3	(1)	**84**	75	9
Natural Gas Transmission	**24**	23	1	**46**	39	7
Total Natural Gas	**26**	26	—	**130**	114	16
Corporate & Other and Intersegment Eliminations	**(2)**	—	(2)	**(4)**	1	(5)
Total Utilities Adjusted Earnings (1)	**102**	116	(14)	**282**	288	(6)

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

Utilities adjusted earnings of $102 million and $282 million in the second quarter and first six months of 2020 were $14 million and $6 million lower than the same periods in 2019. Lower earnings were mainly due to the prior period impact of regulatory decisions received in the second quarter of 2019, the transition to APL operating activities by Electricity Transmission with the 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 and Natural Gas Distribution. Lower earnings were partially offset by cost efficiencies and rate base growth.

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 $32 million in the second quarter of 2020 were $1 million higher than the same period in 2019. Higher adjusted earnings were mainly due to cost efficiencies and growth in the regulated rate base, partially offset by the completion of the ECM funding in 2019 and lower commercial and industrial demand.

Electricity Distribution adjusted earnings of $67 million in the first six months of 2020 were $2 million lower than the same period in 2019. Lower adjusted earnings were mainly due to the completion of the ECM funding in 2019 and lower commercial and industrial demand, partially offset by cost efficiencies and continued growth in regulated rate base.

Electricity Transmission

Electricity Transmission provides regulated electricity transmission mainly in northern and central east Alberta, and in the Lloydminster area of Saskatchewan. Electricity Transmission was the construction project manager for Alberta PowerLine and is the operator of Alberta PowerLine under a 35-year contract.

Electricity Transmission adjusted earnings of $46 million and $89 million in the second quarter and first six months of 2020 were $13 million and $15 million lower than the same periods in 2019. Lower earnings were mainly due to the prior period impact of the Electricity Transmission 2018-2019 General Tariff Application (GTA) decision in 2019, which increased earnings in the second quarter of 2019 by $17 million of which $4 million related to the first quarter of 2019 and $9 million related to 2018.

Excluding the prior period earnings impact from the Electricity Transmission 2018-2019 GTA decision, adjusted earnings in the second quarter of 2020 were comparable to the same period in 2019. Adjusted earnings for the first six months of 2020 were $2 million lower than the same period in 2019 mainly due to the completion of project management construction activities on APL in 2019 and the transition to operating activities.

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 $2 million in the second quarter of 2020 were $1 million lower than the same period in 2019. Lower earnings were mainly due to higher income taxes and the completion of the ECM funding in 2019, partially offset cost efficiencies and growth in rate base.

Natural Gas Distribution adjusted earnings of $84 million in the first six months of 2020 were $9 million higher than the same period in 2019. Higher earnings were mainly due to cost efficiencies and growth in rate base, partially offset by the completion of the ECM funding in 2019.

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 $24 million and $46 million in the second quarter and first six months of 2020 were $1 million and $7 million higher than the same periods in 2019. Higher adjusted earnings were mainly due to growth in rate base and lower income taxes, partially offset by the prior period impact of the Natural Gas Transmission 2018-2019 General Rate Application (GRA) decision, which increased earnings by $3 million in the second quarter of 2019, of which $2 million related to the first quarter of 2019.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Canadian Utilities Corporate & Other adjusted earnings in the second quarter and first six months of 2020 were $2 million and $5 million lower than the same periods in 2019 mainly due to the timing of certain expenditures and lower interest income.

COVID-19 AND GLOBAL MACROECONOMIC CONDITIONS

The COVID-19 pandemic, continued low oil prices and slowing global economic activity have caused far-reaching concern and economic hardship for consumers, businesses and communities across the globe. In this time of uncertainty, our people are working hard to ensure that we continue to support our customers and the communities that depend on our essential services.

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, labour shortages and shutdowns, including as a result of government regulation and prevention measures, which could have a negative impact on the Company's operations.

Any deterioration in general economic and market conditions arising as a result of 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; which could have a negative impact on the Company's business.

CU Inc. continues to review its 2020 capital investment plan in order to incorporate any potential postponement of capital projects over the near term due to customer project delays or changes to direct assigned capital projects by the Alberta Electric System Operator (AESO).

The COVID-19 pandemic, oil price decline and slowing global economic activity did not have a material impact on the Utilities adjusted earnings in the second quarter or first six months of 2020.

Further Information

Please refer to the *Health and Safety Pandemic Update* in the Sustainability, Climate Change and Energy Transition section of this MD&A for further discussion on the COVID-19 pandemic and how CU Inc. is adjusting its operations to maintain safe and reliable service during the pandemic.

REGULATORY DEVELOPMENTS

GOVERNMENT OF ALBERTA 90 DAY UTILITY BILL DEFERRAL PROGRAM

On March 18, 2020, the Government of Alberta announced that residential, commercial and farm utility consumers would be given the option to defer payment of their utility accounts considering the financial pressures arising from the COVID-19 pandemic. The Government provided retailers support through the Balancing Pool and other Government loan agreements for all deferred charges except for the transmission component of customer bills. The deferred Electricity Transmission charges have been backstopped by the Alberta Electric System Operator while Natural Gas Distributors have backstopped the deferred natural gas transmission charges for their customers. The 90 Day Utility Bill Deferral Program did not have a material financial impact on Natural Gas Distribution in the second quarter and first six months of 2020.

PERFORMANCE BASED REGULATION (PBR)

On January 30, 2020, the AUC issued a decision, which provided updated clarification on what would qualify for anomaly adjustments, allowing parties to re-apply for applicable anomalies. Applications were submitted in early 2020 with a decision from the AUC expected before the end of the year. If approved, these would re-establish 2018, 2019 and 2020 rates.

2021 GENERIC COST OF CAPITAL PROCEEDING (GCOC)

In December 2018, the AUC initiated the 2021 Generic Cost of Capital (GCOC) proceeding. The main focus of the proceeding was to determine the rate of return for the years 2021 and 2022, as well as consideration of returning to a formula-based approach. Initial evidence was filed in January 2020.

In March 2020, the AUC suspended the proceeding due to COVID-19 and provided a number of options for setting the utility return on equity (ROE) for 2021. In order to ensure some level of certainty, the Alberta Utilities elected to have the final ROE set on a quarterly basis at 8.5 per cent and 37 per cent equity thickness until a decision is issued on the 2021 GCOC proceeding. Once a decision is issued, the ROE and equity thickness will be implemented on a go-forward basis and will be effective at the start of the quarter following the date of the AUC decision.

NATURAL GAS TRANSMISSION 2021-2023 GENERAL RATE APPLICATION

In June 2020, Natural Gas Transmission filed a GRA for 2021-2023. The application requests, among other things, additional revenues due to rate base growth driven by capital expenditures, such as the Pembina-Keephills Pipeline project and operations and maintenance costs. A decision from the AUC is expected in the second quarter of 2021.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

SUSTAINABILITY REPORTING

ATCO's 2019 Sustainability Report, published in June 2020, focuses on the material topics listed below.

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous relations.

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 2019 Sustainability Report, Sustainability Framework Reference Document, and other disclosures are available on our website at www.canadianutilities.com.

HEALTH AND SAFETY PANDEMIC UPDATE

As we navigate the challenges of the COVID-19 pandemic, the health and safety of our people, customers, and communities are of critical importance to us. CU Inc.'s Pandemic Response Plan was activated in February 2020 by our Crisis Management Committee. Since then our teams have been responding to this rapidly changing situation to ensure a coordinated approach across CU Inc.

As a provider of utility services, we remain focused on continuing to deliver reliable services to our customers. In accordance with our Pandemic Response Plan, which is aimed at protecting the health of our employees, our customers and the public while sustaining our essential services, we have implemented several enhanced protocols including travel restrictions, workplace hygiene practices, employee absence tracking, additional personal protective equipment for essential workers, limiting access to our facilities, and alternative work options for employees where possible (i.e. working from home). An employee helpline has also been established to provide assistance and advice to employees, and employee communication is regularly sent to all employees highlighting trends and key information.

We are committed to doing our part to limit the spread of COVID-19 by following the guidance of local health authorities and governments.

In late second quarter 2020, CU Inc. commenced a phased return to office plan. A Safe Work Playbook has been developed to guide each business in developing their own individual transition plans for staff working from home.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the second quarter and first six months of 2020 and 2019 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 June 30			Six Months Ended June 30		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Operating costs	**311**	296	15	**646**	601	45
Depreciation and amortization	**128**	128	—	**255**	255	—
Net finance costs	**92**	90	2	**183**	178	5
Income tax expense (recovery)	**25**	(179)	204	**74**	(114)	188

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $15 million and $45 million in the second quarter and first six months of 2020 when compared to the same periods in 2019. Higher operating costs were mainly due to higher salaries and wages, higher flow-through expenses in Natural Gas Distribution due to higher flow-through expenses for third party franchise and transmission fees, and higher plant and equipment maintenance in Electricity and Natural Gas Transmission.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization in the second quarter and first six months of 2020 were comparable to the same periods in 2019.

NET FINANCE COSTS

Net finance costs increased by $2 million and $5 million in the second quarter and first six months of 2020 when compared to the same periods in 2019, mainly due to lower interest income from the early settlement of long-term advances receivable from Canadian Utilities in the third quarter of 2019.

INCOME TAX

Income taxes were higher by $204 million and $188 million in the second quarter and first six months of 2020 compared to the same periods in 2019 mainly due to the realization of the deferred tax benefit from the Alberta tax rate reduction in the second quarter of 2019.

In June 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent over four years, commencing with a one per cent decrease on July 1, 2019 followed by a one per cent reduction on January 1 of each of the next three years.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Utility operations. 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, the debt and preferred share 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.

On July 20, 2020, Dominion Bond Rating Service affirmed its 'A (high)' long-term corporate credit rating and stable outlook on CU Inc.

LINES OF CREDIT

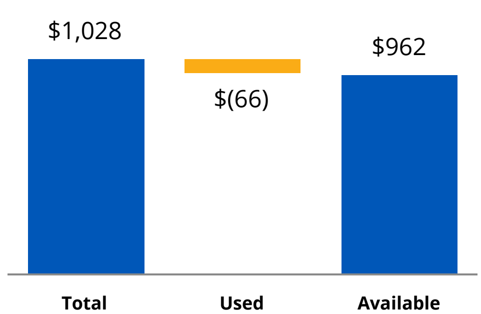
At June 30, 2020, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	Total	Used	Available
Long-term committed	**900**	–	900
Uncommitted	**128**	66	62
Total	**1,028**	66	962

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 lines of credit was committed, with maturities between 2021 and 2022, unless 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 June 30, 2020, the Company's cash position was $261 million, an increase of $190 million compared to December 31, 2019. Funds generated by operations were partially offset by cash used to fund the capital investment program.

Funds Generated by Operations

Funds generated by operations were $311 million in the second quarter of 2020, $31 million lower compared to the same period in 2019. The decrease was mainly due to lower funds generated in Canadian Utilities' Natural Gas Distribution business as a result of the prepayment of certain expenses.

Funds generated by operations were $742 million in the first six months of 2020, $68 million lower the same period in 2019. The decrease was mainly due to the timing of transmission costs in Electricity Distribution.

Cash Used for Capital Expenditures

Capital expenditures were $165 million in the second quarter of 2020, $31 million lower compared to the same period in 2019. The decrease was mainly due to postponed capital investment.

Capital expenditures were $403 million in the first six months of 2020, $10 million higher compared to the same period in 2019. The increase was mainly due to higher capital spending in Electricity Distribution and in Natural Gas Transmission as a result of construction on the Pembina-Keephills transmission pipeline.

Capital investment for the second quarter and first six months of 2020 and 2019 is shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Electricity Distribution	**50**	43	7	**116**	88	28
Electricity Transmission	**29**	44	(15)	**71**	107	(36)
Natural Gas Distribution	**45**	60	(15)	**102**	104	(2)
Natural Gas Transmission	**41**	49	(8)	**114**	94	20
Total [(1)]	**165**	196	(31)	**403**	393	10

(1) Includes additions to property, plant and equipment, intangibles and $2 million and $7 million (2019 - $3 million and $8 million) of interest capitalized during construction for the second quarter and first six months of 2020.

SHARE CAPITAL

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

At July 28, 2020, 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 September 30, 2018 through June 30, 2020.

($ millions)	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenues	618	772	754	**636**
Earnings for the period	112	157	152	**80**
Adjusted earnings				
Electricity	73	83	78	**78**
Natural Gas	—	80	104	**26**
Corporate & Other and Intersegment Eliminations	—	—	(2)	**(2)**
Total adjusted earnings	73	163	180	**102**

($ millions)	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Revenues	547	677	759	638
Earnings for the period	60	126	174	303
Adjusted earnings				
Electricity	70	68	83	90
Natural Gas	(2)	84	88	26
Corporate & Other and Intersegment Eliminations	4	1	1	—
Total adjusted earnings	72	153	172	116

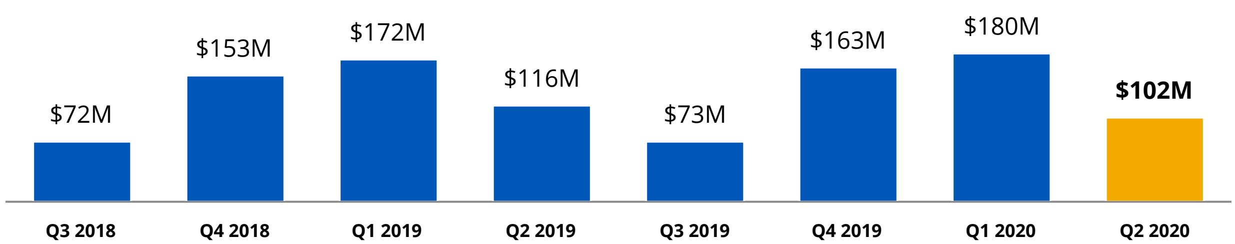
ADJUSTED EARNINGS

Our financial results over the previous eight quarters reflect the timing of utility regulatory decisions. In addition, interim results will vary due to the seasonal nature of demand for natural gas and electricity.

In the third and fourth quarters of 2018, earnings were adversely impacted by performance based regulation rate rebasing under Alberta's regulated model in Natural Gas and Electricity Distribution and lower Electricity Transmission interim rates approved by the AUC, partially offset by growth in rate base across the Utilities.

In the first quarter of 2019, higher earnings were mainly due to ongoing growth in the regulated rate base and cost efficiencies in Electricity Distribution and Natural Gas Distribution. In the second, third and fourth quarters of 2019, higher earnings compared to the same periods in 2018 were mainly due to the positive earnings impact of the Electricity Transmission 2018-2019 GTA decision, ongoing cost efficiencies across the Utilities, lower income taxes and growth in the regulated rate base.

In the first quarter of 2020, Utilities adjusted earnings increased compared to the same period in 2019 mainly due to 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 decreased compared to the same period in 2019. Lower earnings were mainly due to the prior period impact of regulatory decisions received in the second quarter of 2019, the transition to APL operating activities by Electricity Transmission with the 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 and Natural Gas Distribution. Lower earnings were partially offset by cost efficiencies and rate base growth.



NON-GAAP AND ADDITIONAL GAAP MEASURES

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, significant 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 U.S. 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 is an additional GAAP measure presented in Note 3 of the unaudited interim consolidated financial statements.

Funds generated by operations is defined as cash flow from operations before changes in non-cash working capital. In management's opinion, funds generated by operations is a significant performance indicator of the Company's ability to generate cash during a period to fund capital expenditures. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

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, significant 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.

($ millions)					**Three Months Ended June 30**
2020 2019	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**340**	**297**	**—**	**(1)**	**636**
	340	299	—	(1)	638
Adjusted earnings (loss)	**78**	**26**	**(2)**	**—**	**102**
	90	26	(1)	1	116
Rate-regulated activities	**(9)**	**(4)**	**—**	**—**	**(13)**
	120	79	—	—	199
IT Common Matters decision	**(2)**	**(1)**	**—**	**—**	**(3)**
	(7)	(7)	—	—	(14)
Dividends on equity preferred shares of the Company	**2**	**—**	**—**	**—**	**2**
	2	—	—	—	2
Other	**(3)**	**(5)**	**—**	**—**	**(8)**
	—	—	—	—	—
Earnings (loss) for the period	**66**	**16**	**(2)**	**—**	**80**
	205	98	(1)	1	303

($ millions)					Six Months Ended June 30
2020 2019	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**660**	**732**	**—**	**(2)**	**1,390**
	699	699	—	(1)	1,397
Adjusted earnings (loss)	**156**	**130**	**(4)**	**—**	**282**
	173	114	—	1	288
Rate-regulated activities	**(38)**	**(2)**	**—**	**—**	**(40)**
	117	81	—	—	198
IT Common Matters decision	**(4)**	**(3)**	**—**	**—**	**(7)**
	(7)	(7)	—	—	(14)
Dividends on equity preferred shares of the Company	**3**	**2**	**—**	**—**	**5**
	3	2	—	—	5
Other	**(3)**	**(5)**	**—**	**—**	**(8)**
	—	—	—	—	—
Earnings (loss) for the period	**114**	**122**	**(4)**	**—**	**232**
	286	190	—	1	477

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

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

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**17**	17	—	**39**	37	2
Impact of colder temperatures (2)	**4**	—	4	**9**	12	(3)
Revenues to be billed in future periods						
Deferred income taxes (3)	**(22)**	(27)	5	**(56)**	(55)	(1)
Deferred income taxes due to decrease in provincial corporate income tax (4)	**—**	210	(210)	**—**	210	(210)
Regulatory decisions received (see below)	**—**	(3)	3	**—**	(3)	3
Settlement of regulatory decisions and other items (5)	**(12)**	2	(14)	**(32)**	(3)	(29)
	(13)	199	(212)	**(40)**	198	(238)

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

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

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

(4) In the second quarter of 2019, the Government of Alberta enacted a phased decrease in the provincial corporate income tax rate from 12 per cent to 8 per cent. This decrease is being phased in increments starting July 1, 2019. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings for the three and six months ended June 30, 2019 by $210 million.

(5) In the first six months of 2020, Natural Gas Distribution recorded a decrease in earnings of $22 million related to payment of transmission costs. This will be recovered from customers in future periods.

REGULATORY DECISIONS RECEIVED

Under rate-regulated accounting, the Company recognizes earnings from a regulatory decision pertaining to current and prior periods when the decision is received. A description of the significant regulatory decisions recognized in adjusted earnings in 2019 is provided below.

	Decision	Amount	Description
1.	Information Technology (IT) Common Matters	14	In August 2014, CU Inc's parent, Canadian Utilities Limited, sold its IT services business to Wipro Ltd. (Wipro) and signed a ten-year IT Master Services Agreement (MSA) effective January 1, 2015. In 2015, the AUC commenced an Information Technology Common Matters proceeding to review the recovery of IT costs by the Alberta Utilities from January 1, 2015 going forward. On June 5, 2019, the AUC issued its decision regarding the IT Common Matters proceeding and directed the Alberta Utilities to reduce the first-year of the Wipro MSA by 13% and to apply a glide path that reduces pricing by 4.61% in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to June 30, 2019 of $14 million was recorded in the second quarter of 2019.
2.	Electricity Transmission General Tariff Application	(17)	In June 2017, Electricity Transmission filed a GTA for its operations for 2018 and 2019. The decision was received in July 2019 approving the majority of capital expenditures and operating costs requested. The increase in adjusted earnings resulting from the decision of $17 million was recorded in the second quarter of 2019.

IT COMMON MATTERS DECISION

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings in the three and six months ended June 30, 2020 was $3 million and $7 million (2019 - $14 million and $14 million).

OTHER

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

OTHER FINANCIAL INFORMATION

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on April 1, 2020, and ended on June 30, 2020, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information should not be unduly relied upon.

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of 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) and other factors, many of which are beyond the control of the Company.

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

ADDITIONAL INFORMATION

CU Inc. has published its unaudited interim consolidated financial statements and MD&A for the six months ended June 30, 2020. 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

AUC means the Alberta Utilities Commission.

Alberta Utilities or **Utilities** means Electricity Distribution (ATCO Electric Distribution), Electricity Transmission (ATCO Electric Transmission), Natural Gas Distribution (ATCO Gas) and Natural Gas Transmission (ATCO Pipelines).

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 Executive Chair, President & 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.

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

GAAP means Canadian generally accepted accounting principles.

IFRS means International Financial Reporting Standards.

Km means kilometre.

PBR means Performance Based Regulation.