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

An ATCO Company

CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2023

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of CU Inc. (our, we, us, or the Company) during the three months ended March 31, 2023.

This MD&A was prepared as of April 26, 2023, and should be read with the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2023. Additional information, including the Company's previous MD&A (2022 MD&A), Annual Information Form (2022 AIF), and audited consolidated financial statements for the year ended December 31, 2022, is available on SEDAR at www.sedar.com. Information contained in the 2022 MD&A is not discussed in this MD&A if it remains substantially unchanged.

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

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

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UTILITIES PERFORMANCE

REVENUES

Revenues of $877 million in the first quarter of 2023 were $40 million lower compared to the same period in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation Performance Based Regulation (PBR) term now being passed onto customers under the 2023 Cost of Service (COS) rebasing framework, and the AUC decision to maximize the collection of 2021 deferred revenues in 2022 as a result of rate relief provided to customers in 2021. In addition, revenues in Electricity Transmission are lower due to the setting of interim rates. The applied for negotiated settlement agreement reflects ceased collection as well as a refund of previously collected federal deferral income taxes. This collection was undertaken beginning in 2011 to improve cash flows during the construction of major transmission projects at that time. These actions do not significantly impact adjusted earnings, however, will reduce revenues and cash flows from 2023 to 2025, providing rate relief to customers. Lower revenues were partially offset by higher flow-through revenues in Electricity Distribution.

ADJUSTED EARNINGS

	Three Months Ended March 31		
($ millions)	**2023**	**2022**	**Change**
Electricity			
Electricity Distribution [1]	**38**	47	(9)
Electricity Transmission [1]	**44**	43	1
Total Electricity	**82**	90	(8)
Natural Gas			
Natural Gas Distribution [1]	**88**	99	(11)
Natural Gas Transmission [1]	**25**	23	2
Total Natural Gas	**113**	122	(9)
Corporate & Other and Intersegment Eliminations	**(1)**	(1)	—
Total Utilities [2]	**194**	211	(17)

(1) Additional information regarding these non-GAAP measures is provided under the headings "Other Financial and Non-GAAP Measures" and "Reconciliation of Adjusted Earnings to Earnings for the Period" in this MD&A.

(2) Additional information regarding this total of segments measure is provided under the headings "Other Financial and Non-GAAP Measures" and "Reconciliation of Adjusted Earnings to Earnings for the Period" in this MD&A.

Utilities adjusted earnings of $194 million in the first quarter of 2023 were $17 million lower compared to the same period in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. Lower earnings were partially offset by new cost efficiencies realized in 2023 in Electricity Distribution and Natural Gas Distribution.

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

Electricity Distribution

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

Electricity Distribution adjusted earnings of $38 million in the first quarter of 2023 were $9 million lower than the same period in 2022 mainly due to cost efficiencies generated over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework, partially offset by new cost efficiencies realized in 2023 and growth in rate base.

Electricity Transmission

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

Electricity Transmission adjusted earnings of $44 million in the first quarter of 2023 were $1 million higher compared to the same period in 2022 mainly due to cost efficiencies.

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 $88 million in the first quarter of 2023 were $11 million lower than the same period in 2022 mainly due to cost efficiencies generated over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. Lower earnings were partially offset by growth in rate base and new cost efficiencies realized in 2023.

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 $25 million in the first quarter of 2023 were $2 million higher than the same period in 2022 mainly due to growth in rate base.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the first quarter of 2023 were comparable to the same period in 2022.

REGULATORY DEVELOPMENTS

SUBSEQUENT DEVELOPMENT

Electricity Distribution

Alberta Court of Appeal ATCO Electric Distribution Fort McMurray Wildfire Decision

On April 14, 2023, the Alberta Court of Appeal issued their decision with respect to Electricity Distribution's Fort McMurray Wildfire Decision issued by the Alberta Utilities Commission (AUC) which denied the ability for Electricity Distribution to recover the balance of the prudent cost of assets which were destroyed by the Fort McMurray wildfires of 2016. The decision was positive and granted the Appeal which now refers the matter back to the AUC for reconsideration in light of the Court's guidance.

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 2022 Sustainability Report, which will be published in May 2023, focuses on the following material topics:

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

In January 2022, ATCO released its 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. Achieving net zero by 2050 is a societal challenge that no individual, business, or government can solve on its own. It will require unprecedented collaboration among all constituents, as well as an informed, pragmatic, and affordable roadmap from policymakers to unlock the necessary scale and pace of private sector investment and expertise.

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

The 2022 Sustainability Report, ESG Datasheet, Corporate Governance, materiality assessment, and additional details and other disclosures will be available in May 2023 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

We actively and constructively work with all levels of government to advocate for enabling policy and regulation, and to identify barriers that impede cost-effective, economy-wide decarbonization. We participate in a wide number of discussions, and the following are examples of where we focus.

Government of Canada Federal Budget 2023

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

- ***Clean Technology ITC*** – originally announced in 2022 as a 30 per cent refundable tax credit in clean technologies, Budget 2023 expanded this credit to include certain geothermal equipment used to produce geothermal energy or heat energy.
- ***Clean Hydrogen ITC*** – a 15 to 40 per cent refundable tax credit available on eligible equipment for projects that produce hydrogen from electrolysis or natural gas with emissions that are abated using Carbon Capture Utilization and Storage (CCUS).
- ***Clean Electricity ITC*** – a 15 per cent refundable tax credit for investments in non-emitting electricity generation systems (i.e., solar, wind, hydro, nuclear), abated natural gas-fired electricity generation, electricity storage systems, and equipment used for transmission of electricity between provinces and territories.
- ***Clean Technology Manufacturing ITC*** – a 30 per cent refundable tax credit for the capital costs of machinery and equipment used in manufacturing of renewable energy equipment (i.e., solar, wind, geothermal, nuclear), nuclear energy equipment, grid-scale electrical storage equipment, zero-emission vehicles, batteries, fuel cells, recharging systems for vehicles, and hydrogen production equipment.
- ***Carbon Capture, Utilization and Storage ITC*** – previously released in 2022, eligible equipment for this credit will now include dual-use equipment that produces heat and/or power, or uses water, and is used for CCUS with further details to be released in the coming months.

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

Carbon Pricing/Output-Based Pricing Systems

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

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the first quarter of 2023 and 2022 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

	Three Months Ended March 31		
($ millions)	**2023**	**2022**	**Change**
Operating costs	**376**	390	(14)
Depreciation and amortization	**141**	138	3
Net finance costs	**88**	92	(4)
Income tax expense	**63**	75	(12)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, decreased by $14 million in the first quarter of 2023 compared to the same period in 2022. Lower operating costs were mainly due to lower purchased power expense after the sale of a controlling interest in Northland Utilities Enterprises (NUE) in 2022, and costs incurred in 2022 related to the AUC enforcement proceeding and the Workplace COVID-19 vaccination standard. Lower operating costs were partially offset by legal and other costs related to the Wipro Ltd. (Wipro)

Master Services Agreement (MSA) matter that was concluded on February 26, 2023, and the 2022 gain on sale due to the change in ownership interest in NUE.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $3 million in the first quarter of 2023 compared to the same period in 2022 mainly due to ongoing capital investment.

NET FINANCE COSTS

Net finance costs decreased by $4 million in the first quarter of 2023 compared to the same period in 2022 mainly due to higher interest income from cash investments.

INCOME TAX EXPENSE

Income taxes were lower by $12 million in the first quarter of 2023 compared to the same period in 2022 mainly due to lower IFRS earnings before income taxes and prior year non-deductible items.

LIQUIDITY AND CAPITAL RESOURCES

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

CREDIT RATINGS

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

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

LINES OF CREDIT

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

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	—	900
Uncommitted	**101**	37	64
Total	**1,001**	37	964

Of the $1,001 million in total lines of credit, $101 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 2024 and 2026, and may be extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.

CONSOLIDATED CASH FLOW

At March 31, 2023, the Company's cash position was $238 million, an increase of $250 million compared to December 31, 2022 mainly due to cash flows from operating activities achieved during the first quarter of 2023, partially offset by cash used to fund the capital investment program, and interest paid.

Cash Flows from Operating Activities

Cash flows from operating activities of $569 million in the first quarter of 2023 were $51 million lower than the same period in 2022 mainly due to timing of payables.

Cash Used for Capital Expenditures

Cash used for capital expenditures was $241 million in the first quarter of 2023, $43 million higher compared to the same period in 2022 mainly due to ongoing capital investment.

Capital expenditures for the first quarter of 2023 and 2022 is shown in the table below.

	Three Months Ended March 31		
($ millions)	**2023**	**2022**	**Change**
Electricity Distribution	**67**	51	16
Electricity Transmission	**78**	70	8
Natural Gas Distribution	**65**	58	7
Natural Gas Transmission	**31**	19	12
Total (1) (2)	**241**	198	43

(1) Includes additions to property, plant and equipment, intangibles, and $4 million (2022 - $2 million) of capitalized interest during construction for the first quarter of 2023.

(2) Includes $51 million for the first quarter of 2023 (2022 - $42 million) of capital expenditures that were funded with the assistance of customer contributions.

SHARE CAPITAL

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

At April 25, 2023, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended June 30, 2021 through March 31, 2023.

($ millions)	**Q2 2022**	**Q3 2022**	**Q4 2022**	**Q1 2023**
Revenues	738	659	837	**877**
Earnings for the period	153	93	136	**209**
Adjusted earnings (loss)				
Electricity	85	81	70	**82**
Natural Gas	35	6	83	**113**
Corporate & Other and Intersegment Eliminations	—	(1)	(2)	**(1)**
Total adjusted earnings (1)	120	86	151	**194**

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

(1) Additional information is provided under the headings “Other Financial and Non-GAAP Measures” and “Reconciliation of Adjusted Earnings to Earnings for the Period” in this MD&A.

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

ADJUSTED EARNINGS

Adjusted earnings in the second quarter of 2022 were higher compared to the same period in 2021 mainly due to the impact of the 2018-2019 General Tariff Application (GTA) Compliance Filing decision received in the second quarter of 2021 in the Electric Transmission business, growth in rate base, the timing of operating costs, and cost efficiencies.

Adjusted earnings in the third quarter of 2022 were higher compared to the same period in 2021 mainly due to timing of operating costs, cost efficiencies, and growth in rate base.

Adjusted earnings in the fourth quarter of 2022 were lower compared to the same period in 2021 mainly due to the timing of operating costs.

Adjusted earnings in the first quarter of 2023 were lower compared to the same period in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. Lower earnings were partially offset by new cost efficiencies realized in 2023 in Electricity Distribution and Natural Gas Distribution.

EARNINGS FOR THE PERIOD

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

- Early Termination of the MSA for Managed IT Services
    - The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and was completed by December 31, 2021. In 2021, CU Inc. recognized transition costs of $32 million (after-tax).
    - In the first quarter of 2023, the Company recognized legal and other costs of $2 million (after-tax) related to the Wipro MSA matter which was concluded on February 26, 2023.
- AUC Enforcement Proceeding
    - On April 14, 2022, the AUC Enforcement branch and ATCO Electric Transmission filed a settlement with the AUC regarding a sole source contract for the Jasper interconnection project. On June 29, 2022, the AUC issued its decision approving the settlement in its entirety. In the fourth quarter of 2021 and first quarter of 2022, the Company recognized costs of $14 million and $27 million (after-tax), respectively, related to the proceeding.
- Workplace COVID-19 Vaccination Standard
    - To safeguard the health and safety of employees, business partners, customers and communities, the Company required its employees, subject to certain exemptions, to be vaccinated against COVID-19 effective January 1, 2022. Employees who did not demonstrate they were vaccinated or did not have an approved exemption were provided severance. In 2022, the Company incurred $8 million (after-tax) in severance and related costs associated with the Workplace COVID-19 vaccination standard.
- Gain on sale of ownership interest in a subsidiary company
    - On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in Northland Utilities Enterprises Ltd. from 14 per cent to 50 per cent. The transaction resulted in a gain on sale of $5 million (after-tax). Effective March 31, 2022, the Company no longer consolidates NUE as a controlled subsidiary, and instead, accounts for its interest in NUE as an investment in joint venture using the equity method.

OTHER FINANCIAL AND NON-GAAP MEASURES

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

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

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

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

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

Total of segments measures are most directly comparable to total earnings for the period. Comparable total of segments measures for the same period in 2022 have been calculated using the same composition and are disclosed alongside the current total of segments measures in this MD&A. A reconciliation of the total of segments measures with total earnings for the period is presented in this MD&A.

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

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

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

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

($ millions)					Three Months Ended March 31
2023 2022	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**369**	**509**	**—**	**(1)**	**877**
	393	525	—	(1)	917
Adjusted earnings (loss)	**82**	**113**	**(1)**	**—**	**194**
	90	122	(1)	—	211
Rate-regulated activities	**4**	**16**	**—**	**—**	**20**
	14	29	—	—	43
IT Common Matters decision	**(3)**	**(2)**	**—**	**—**	**(5)**
	(2)	(2)	—	—	(4)
Transition of managed IT services	**(1)**	**(1)**	**—**	**—**	**(2)**
	—	—	—	—	—
Dividends on equity preferred shares of the Company	**1**	**1**	**—**	**—**	**2**
	1	1	—	—	2
AUC enforcement proceeding	**—**	**—**	**—**	**—**	**—**
	(27)	—	—	—	(27)
Workplace COVID-19 vaccination standard	**—**	**—**	**—**	**—**	**—**
	(3)	(5)	—	—	(8)
Gain on sale of ownership interest in a subsidiary company	**—**	**—**	**—**	**—**	**—**
	5	—	—	—	5
Earnings (loss) for the period	**83**	**127**	**(1)**	**—**	**209**
	78	145	(1)	—	222

RATE-REGULATED ACTIVITIES

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

There is currently no specific guidance under IFRS 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 March 31		
($ millions)	**2023**	**2022**	**Change**
Additional revenues billed in current period			
Future removal and site restoration costs (1)	**30**	31	(1)
Impact of colder temperatures (2)	**2**	—	2
Revenues to be billed in future periods			
Deferred income taxes (3)	**(34)**	(22)	(12)
Impact of warmer temperatures (2)	**—**	(6)	6
Settlement of regulatory decisions and other items			
Distribution rate relief (4)	**5**	35	(30)
Other (5)	**17**	5	12
	20	43	(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 periods.

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

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

(4) In 2021, in response to the COVID-19 pandemic, Electricity Distribution and Natural Gas Distribution had interim rate relief for customers approved by the AUC to hold current distribution base rates in place. Based on direction from the AUC, collection of 2021 deferred rates commenced in 2022 and for the first quarter ended March 31, 2023, $5 million (after-tax) (2022 - $35 million (after-tax)) was billed to customers.

(5) In the first quarter of 2023, Electricity Distribution recorded an increase in earnings of $16 million (after- tax) related to payments of electricity transmission costs.

IT COMMON MATTERS DECISION

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings for the three months ended March 31, 2023 was $5 million (after-tax) (2022 - $4 million (after-tax)).

TRANSITION OF MANAGED IT SERVICES

In the three months ended March 31, 2023, the Company recognized additional legal and other costs of $2 million (after tax) related to the Wipro Ltd. Master Services Agreement matter that was concluded on February 26, 2023.

AUC ENFORCEMENT PROCEEDING

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

WORKPLACE COVID-19 VACCINATION STANDARD

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

GAIN ON SALE OF OWNERSHIP INTEREST IN A SUBSIDIARY COMPANY

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

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

($ millions)	CU Inc.							Three Months Ended March 31
2023 / 2022	Electricity			Natural Gas			Consolidated	
	Electricity Distribution	Electricity Transmission	Consolidated Electricity	Natural Gas Distribution	Natural Gas Transmission	Consolidated Natural Gas		
Adjusted earnings	**38**	**44**	**82**	**88**	**25**	**113**	**195**	
	47	43	90	99	23	122	212	
Rate-regulated activities	**10**	**(6)**	**4**	**18**	**(2)**	**16**	**20**	
	1	13	14	27	2	29	43	
IT Common Matters decision	**(2)**	**(1)**	**(3)**	**(2)**	**—**	**(2)**	**(5)**	
	(1)	(1)	(2)	(1)	(1)	(2)	(4)	
Transition of managed IT services	**(1)**	**—**	**(1)**	**(1)**	**—**	**(1)**	**(2)**	
	—	—	—	—	—	—	—	
Dividends on equity preferred shares of the Company	**—**	**1**	**1**	**1**	**—**	**1**	**2**	
	—	1	1	1	—	1	2	
AUC enforcement proceeding	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
	—	(27)	(27)	—	—	—	(27)	
Workplace COVID-19 vaccination standard	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
	(2)	(1)	(3)	(3)	(2)	(5)	(8)	
Gain on sale of ownership interest in a subsidiary company	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
	5	—	5	—	—	—	5	
Earnings for the period	**45**	**38**	**83**	**104**	**23**	**127**	**210**	
	50	28	78	123	22	145	223	

OTHER FINANCIAL INFORMATION

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2023, and ended on March 31, 2023, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", "goals", "targets", "strategy", "future", and similar expressions. In particular, forward-looking information in this MD&A includes, but is not limited to, references to: strategic plans and targets, including ESG targets and the commitment to achieve net zero GHG emissions by 2050; expected emissions reductions, and decarbonization to enable customers to transition to lower emitting sources of energy while maintaining safety, reliability and affordability; and expected carbon pricing in Canada.

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 ESG 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; credit risk; interest rate fluctuations; the availability and cost of labour, materials, services, and infrastructure; the development and execution of projects; prices of electricity, natural gas, natural gas liquids, and renewable energy; the development and performance of technology and new energy efficient products, services, and programs including but not limited to the use of zero-emission and renewable fuels, carbon capture, and storage, electrification of equipment powered by zero-emission energy sources and utilization and availability of carbon offsets; potential termination or breach of contract by contract counterparties; the occurrence of unexpected events such as fires, severe weather conditions, explosions, blow-outs, equipment failures, transportation incidents, and other accidents or similar events; and other risk factors, many of which are beyond the control of the Company. Due to the interdependencies and correlation of these factors, the impact of any one material assumption or risk on a forward-looking statement cannot be determined with certainty. Readers are cautioned that the foregoing lists are not exhaustive. For additional information about the principal risks that the Company faces, see "Business Risks and Risk Management" in the Company's Management's Discussion & Analysis for the year ended December 31, 2022.

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

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

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

ADDITIONAL INFORMATION

CU Inc. has published its unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 2023. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, or email investorrelations@atco.com.

GLOSSARY

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

AUC means the Alberta Utilities Commission.

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

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

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

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

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

ESG means Environmental, Social and Governance.

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

GTA means general tariff application.

IFRS means International Financial Reporting Standards.

PBR means Performance Based Regulation.