CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 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 year ended December 31, 2020.

This MD&A was prepared as of February 24, 2021, and should be read with the Company's audited consolidated financial statements (2020 Consolidated Financial Statements) for the year ended December 31, 2020. Additional information, including the Company's Annual Information Form (2020 AIF), 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.

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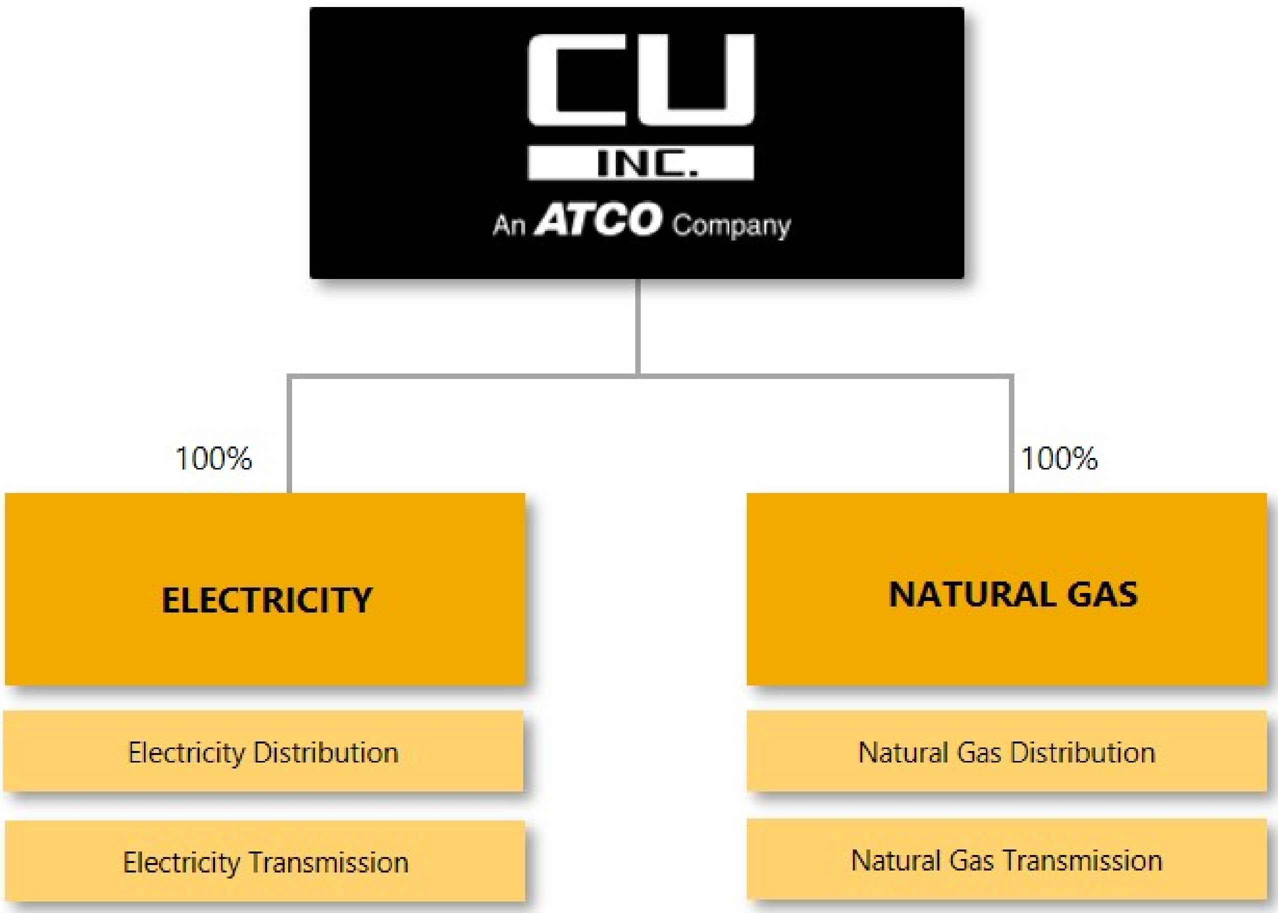
COMPANY OVERVIEW

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 $17 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 2020 Consolidated Financial Statements include the accounts of CU Inc. and all of its subsidiaries. The 2020 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.

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 evolve and offer 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 we are privileged to serve.

INNOVATION

We seek to create a 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 recognize that current trends and headwinds facing the utilities business model require us to proactively adapt our strategy while continuing to invest in our core business to ensure we remain relevant in the delivery of energy and creating of long-term value for our share owners. We approach this strategy by: developing significant, value-creating greenfield projects; fostering continuous improvement; and delivering reliable, cleaner and affordable energy for customers.

We pursue the acquisition and development of complementary assets and businesses that have future growth potential.

FINANCIAL STRENGTH

Financial strength is the bedrock of our current and future success. It ensures 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

CU Inc. maintains 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 involves developing partnerships with Indigenous and community groups that may be affected by projects and operations, and building 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 that will serve to benefit non-profit organizations through volunteer efforts, and provide products and services in-kind.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

CU Inc.'s financial and operational achievements in 2020 relative to the strategies outlined above are included in this MD&A, the 2020 Consolidated Financial Statements and 2020 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 2020.

Target Met | Target Partially Met | Target Not Met

STRATEGIC PRIORITIES	2020 TARGET	2020 PERFORMANCE
INNOVATION		
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs.	CU Inc. is advancing a first-of-its kind hydrogen blending project in Fort Saskatchewan, Alberta. Once complete, the project will be Canada's largest hydrogen blending project.
	• Continue to reduce or replace diesel consumption with more energy efficient solutions for customers in remote communities.	CU Inc. installed Canada's largest off-grid 2,800-kW solar project in partnership with three Alberta Indigenous Nations in the remote northern Alberta community of Fort Chipewyan. Diesel consumption in this community has been reduced by 25 per cent as a result.
	Demonstrate continuous improvement of existing products and services.	CU Inc. completed and placed in-service the $230 million Pembina-Keephills transmission pipeline. The new line is a critical piece in Alberta's transition away from coal-fired power plants. Connecting into Capital Power's generating stations at Genesee, this pipeline will be a part of the phase-out of coal and will help reduce emissions with cleaner-burning natural gas.
GROWTH		
Regulated and long-term contracted capital investment	Continue to invest across our Utilities.	CU Inc. invested $806 million across the Utilities in 2020. CU Inc. announced the acquisition of the Pioneer Pipeline for $255 million. The 131-km natural gas pipeline located west of Edmonton, Alberta, facilitates the conversion of the Sundance and Keephills coal-fired electricity generating plants to cleaner-burning natural gas. The transaction is expected to close in 2021.
FINANCIAL STRENGTH		
Credit rating	Maintain investment grade credit rating.	Maintained 'A (high)' long-term and stable trend with DBRS Limited. Maintained 'A-' long- term issuer credit rating on CU Inc. and stable outlook with Standard & Poors.

STRATEGIC PRIORITIES	2020 TARGET	2020 PERFORMANCE
Access to capital markets	Access capital at attractive rates.	In 2020, we raised $150 million in 30-year debentures at a rate of 2.609 per cent, the lowest long-term coupon achieved in the Company's history.
OPERATIONAL EXCELLENCE		
Lost-time incident frequency: employees		CU Inc.'s 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 2020 was 0.34/200,000 hours worked.
Total recordable incident frequency: employees		CU Inc.'s recordable incident frequency in 2020 compares favourably to benchmarks such as US private industry and industry best practice rates. Our total recordable incident frequency in 2020 was 2.00 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 96 per cent of customers agreed that Canadian Utilities provides good service.
Organizational transformation	Streamline and gain operational efficiencies.	CU Inc. 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 while the electricity business is expecting to finalize in 2023.
COMMUNITY INVOLVEMENT		
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.	More than 5,000 students from 41 communities in Alberta participated in the Spirit North program. This program is designed to help Indigenous youth develop skills that improve their performance in the classroom and deepen their connection to their communities. $66,000 was awarded to 49 students across Canada, including the territories, through the ATCO Indigenous Education Awards Program. In ATCO, a total of 617 employees participated in one of the many Indigenous training courses offered in 2020 through virtual classroom and online training platforms.

STRATEGIC PRIORITIES	2020 TARGET		2020 PERFORMANCE
Indigenous relations			The Utilities were awarded a contract in July 2020 with a Montana First Nation to build a substation to support the Nation's 5-MW solar facility currently under construction. In addition, they have been awarded a contract with the Nation to provide infrastructure mapping services for their existing natural gas system. ATCO was awarded the 2020 International Edison Award for Alberta PowerLine's Fort McMurray West 500-kilovolt (kV) Transmission project which created a new business model that exemplified how the electric power industry and Indigenous Peoples can work together to develop innovative energy infrastructure that benefits both customers and 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.		With the combined efforts of our employees around the world, ATCO pledged more than $2.9 million to support hundreds of community charities through our annual ATCO epic campaign, taking the programs cumulative fundraising total to more than $47 million since its inception in 2006. ATCO provided 11,700 meals to seniors who were isolated during the pandemic.

STRATEGIC PRIORITIES FOR 2021

The following table outlines our strategic priorities for 2021.

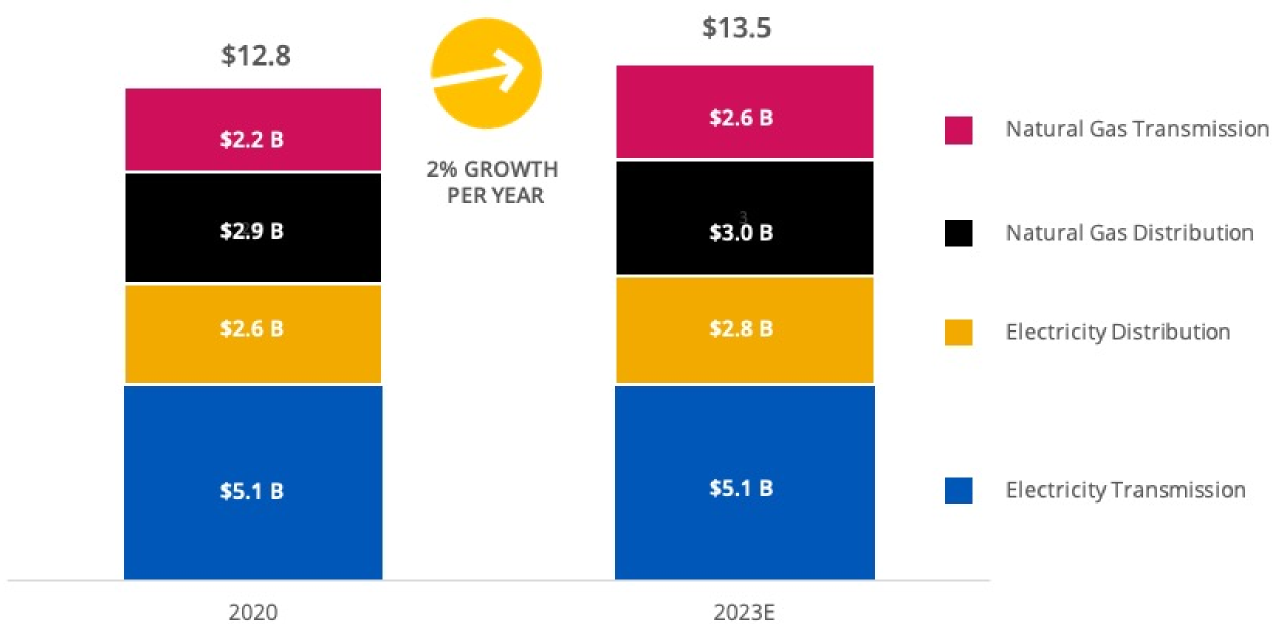
INNOVATION	
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs. • Continue to support communities and customers through the deployment of cleaner energy solutions. • Explore further opportunities to invest in clean fuel initiatives such as hydrogen and renewable natural gas.
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. 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 identified and managed.
FINANCIAL STRENGTH	
Credit rating	Maintain investment grade credit rating.
Access to capital markets	Access capital at attractive rates.
OPERATIONAL EXCELLENCE	
Lost-time incident frequency: employees **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: • Continue 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 INVESTMENT PLANS

In the 2021 to 2023 period, CU Inc. expects to invest approximately $3.0 billion in regulated utility capital growth projects, of which $0.8 billion relates to Electricity Distribution, $0.8 billion to Electricity Transmission, $0.8 billion to Natural Gas Distribution, and $0.6 billion to Natural Gas Transmission. This capital investment is expected to generate utility mid-year rate base growth of approximately two per cent per year.

Mid-year rate base is equal to the total net capital investment less depreciation. Growth in mid-year rate base is a leading indicator of a utility's earnings trend, depending on changes in the equity ratio of the mid-year rate base and the rate of return on common equity.

MID-YEAR RATE BASE GROWTH (C$ Billions)



UTILITIES PERFORMANCE

REVENUES

Revenues of $739 million and $2,730 million in the fourth quarter and full year of 2020, were $33 million and $57 million lower than the same periods in 2019 mainly due to the timing of settlements related to regulatory decisions, and the transition to Alberta PowerLine (APL) operating activities by Electricity Transmission with the completion of project management construction activities in 2019. Lower revenues were partially offset by growth in the regulated rate base.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Electricity						
Electricity Distribution	**37**	32	5	**131**	127	4
Electricity Transmission	**42**	51	(9)	**174**	202	(28)
Total Electricity	**79**	83	(4)	**305**	329	(24)
Natural Gas						
Natural Gas Distribution	**79**	62	17	**146**	119	27
Natural Gas Transmission	**22**	18	4	**89**	75	14
Total Natural Gas	**101**	80	21	**235**	194	41
Corporate & Other and Intersegment Eliminations	**(1)**	—	(1)	**(6)**	1	(7)
Total Utilities Adjusted Earnings (1)	**179**	163	16	**534**	524	10

(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 $179 million and $534 million in the fourth quarter and full year of 2020 were $16 million and $10 million higher than the same periods in 2019. Higher earnings were mainly due to cost efficiencies and rate base growth, partially offset by Electricity Transmission's transition to APL operating activities in 2019.

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 and $131 million in the fourth quarter and full year of 2020 were $5 million and $4 million higher compared to the same periods in 2019. Higher earnings were mainly due to cost efficiencies and continued growth in rate base. Higher earnings were partially offset by the completion of the Efficiency Carry-over Mechanism (ECM) funding in 2019.

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 APL and is the operator under a 35-year contract.

Electricity Transmission adjusted earnings of $42 million in the fourth quarter of 2020 were $9 million lower than the same period in 2019. Lower earnings were mainly due to the transition to APL operating activities by Electricity

Transmission with the completion of project management construction activities in 2019, and the timing of certain costs.

Electricity Transmission adjusted earnings of $174 million in the full year of 2020 were $28 million lower than the same period in 2019. Lower earnings were mainly due to the transition to APL operating activities by Electricity Transmission with the completion of project management construction activities in 2019, and the positive earnings impact of the Electricity Transmission 2018-2019 General Tariff Application (GTA) decision received in 2019.

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 $79 million and $146 million in the fourth quarter and full year of 2020 were $17 million and $27 million higher than the same periods in 2019. Higher earnings were mainly due to ongoing cost efficiencies, the timing of certain operating costs, and growth in the regulated rate base. Higher earnings were partially offset by the completion of 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 $22 million and $89 million in the fourth quarter and full year of 2020 were $4 million and $14 million higher than the same periods in 2019. Higher adjusted earnings were mainly due to growth in the regulated rate base, and ongoing cost efficiencies.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the fourth quarter and full year of 2020 were $1 million and $7 million lower than the same periods in 2019 mainly due to the timing of certain expenses and lower interest income that no longer exists as a result of Canadian Utilities' sale of the Canadian fossil fuel-based electricity generation business in 2019.

RECENT DEVELOPMENTS

Natural Gas Transmission

Pembina Keephills

In the second quarter of 2020, Natural Gas Transmission completed and placed in-service the $230 million Pembina-Keephills transmission pipeline. The 59-km high-pressure natural gas pipeline supports coal-to-gas conversion of power producers in the Genesee and surrounding areas of Alberta with the capacity to deliver up to 550-TJ per day.

Pioneer Pipeline Acquisition

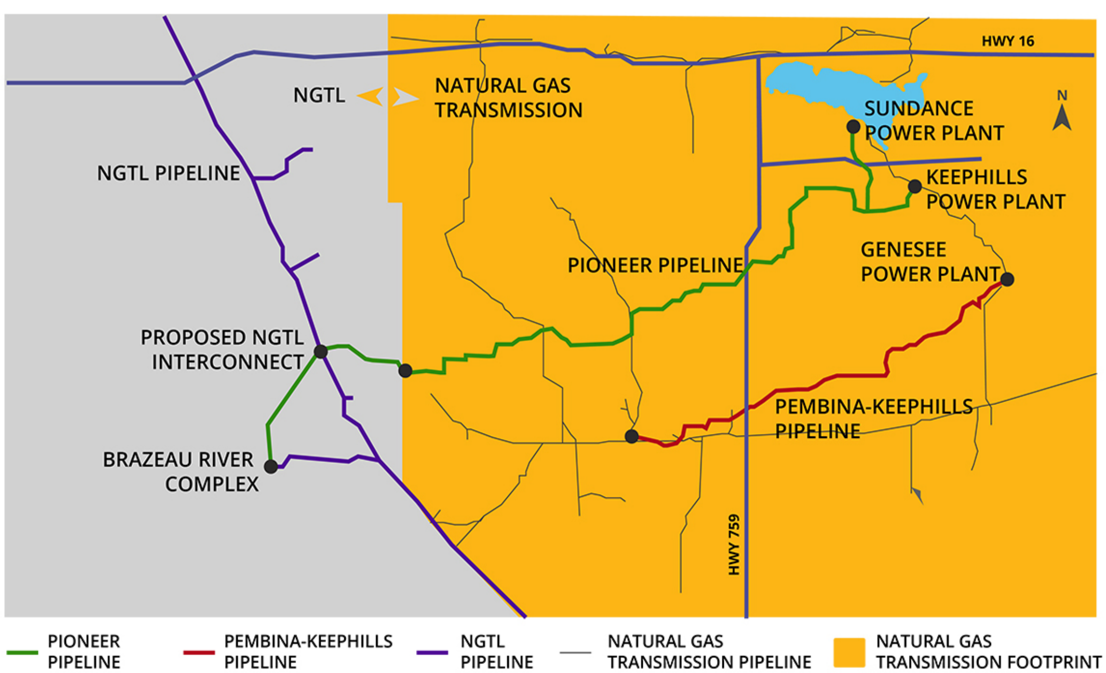
In the third quarter of 2020, Natural Gas Transmission entered into an agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. (Tidewater) and its partner TransAlta Corporation (TransAlta) for a purchase price of $255 million. The 131-km natural gas pipeline runs from the Drayton Valley area to the Wabamun area west of Edmonton, Alberta.

This agreement replaces the previously announced Tidewater and TransAlta purchase and sale agreement to sell the Pioneer Pipeline to NOVA Gas Transmission Ltd. (NGTL) and is under substantially similar terms.

NGTL and Natural Gas Transmission agreed that, consistent with the geographic areas defined in their Integration Agreement, Natural Gas Transmission would transfer to NGTL the 30-km segment of the Pioneer Pipeline located in the NGTL footprint for approximately $63 million. Natural Gas Transmission will retain ownership and continue to operate the portion of the Pioneer Pipeline located in the Natural Gas Transmission footprint. Upon completion of this transfer, and some additional investment to connect the pipeline to the existing system, the Pioneer Pipeline acquisition will add a net $200 million to the Natural Gas Transmission asset base.

The transactions are subject to customary conditions including regulatory approvals by the AUC and the Alberta Energy Regulator, which are expected in the second quarter of 2021.

Following the close of the transaction, the Pioneer Pipeline will be integrated into NGTL's and CU Inc.'s Alberta integrated 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.



REGULATORY DEVELOPMENTS

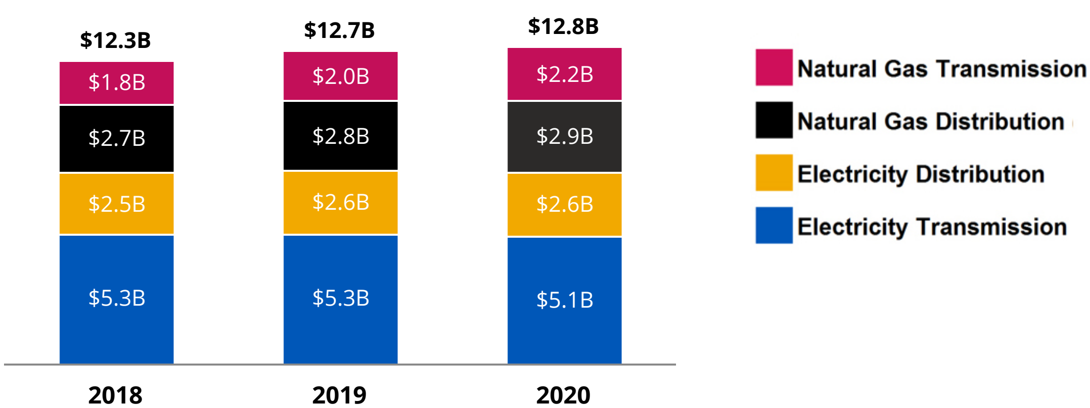
Regulated Business Models

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. In December 2019, the AUC initiated the 2021 GCOC proceeding. The main focus of the proceeding was to determine the rate of return for the years 2021 and 2022, and provide consideration for returning to a formula-based approach. Initial evidence was filed in January 2020 focusing on comparability to other investments, capital attraction and financial integrity. On October 13, 2020, the AUC issued a decision approving the extension of the current ROE of 8.5 per cent and capital structure of 37 per cent equity on a final basis for 2021. The AUC commenced a new GCOC process in December 2020 to address ROE and equity thickness for 2022 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.

In February 2018, the AUC released a regulatory decision that provided determinations for the going-in rates and incremental capital funding for the second generation of PBR. While subsequent proceedings have occurred to review the setting of going-in rates, none of these proceedings have resulted in any changes for our Electricity Distribution and Natural Gas Distribution rates.

	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 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: 8.5% • 2021: 8.5% • 2022: ROE pending future GCOC proceeding decisions

COMMON MATTERS

2021 Interim Rate Relief Request

In December 2020, the AUC approved the Electricity Distribution and Natural Gas Distribution requests to defer the compulsory distribution rate increases which would normally come into effect on January 1, 2021 for both businesses. The rate relief was requested to defer significant distribution rate increases which would be passed onto end use customers due to the formulaic approach of rate calculations under the AUC PBR mechanism. Electricity Distribution and Natural Gas Distribution cited the current economic situation in Alberta, including the hardships faced by some end use customers due to the COVID-19 pandemic, as rationale to proceed with these interim rates. Electricity Distribution and Natural Gas Distribution are to file an application by March 1, 2021, outlining the duration of the rate freeze and collection timelines, expected deferral values including carrying costs and anticipated impacts to customers.

ELECTRICITY TRANSMISSION

2020-2022 GENERAL TARIFF APPLICATION (GTA)

In October 2019, Electricity Transmission filed a GTA for the period 2020-2022. The application also requests the ability to advance an application to establish 2023 and 2024 revenue requirements by escalating the 2022 approved revenue requirement. This proceeding has concluded, and a decision is expected in the first quarter of 2021.

2015-2017 Direct Assigned Projects Deferral Application

In November 2020, Electricity Transmission received a decision regarding its 2019 application for the disposal of its 2015-2017 transmission deferral accounts and annual filing adjustment balances. Electricity Transmission's application included capital additions for 27 projects, most notably the Eastern Alberta Transmission Line (EATL), which represented $1.8 billion of the $2.2 billion of capital additions in this proceeding. The AUC approved the $2.2 billion in capital additions to be added to rate base with minimal disallowance.

NATURAL GAS TRANSMISSION

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

In June 2020, Natural Gas Transmission filed a GRA for the period 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 first quarter of 2021.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

We balance the short and long-term economic, environmental and social considerations of our businesses while creating value for our customers, employees, share owners, 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.

SUSTAINABILITY REPORTING

In 2020, ATCO completed a refresh of the material topics for its Sustainability Report, incorporating feedback from internal and external groups. The 2020 Sustainability Report, which will be published in May 2021, focuses on the material topics listed below:

- 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, and emergency preparedness and response;
- People - occupational health and safety, public safety, and diversity, inclusion and equity; and
- Community and Indigenous Relations - Indigenous engagement, economic opportunity and reconciliation, and community engagement and investment.

The Sustainability Report is based upon the internationally recognized Global Reporting Initiative (GRI) Standards. ATCO's 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, more details of the materiality assessment and other disclosures are available on our website, at www.canadianutilities.com

CLIMATE CHANGE AND ENERGY TRANSITION

To contribute to a low carbon future, we continue to pursue initiatives looking at integrating cleaner fuels and renewable energy. We look to expand our ownership and development of clean energy solutions, as well as enable our customers to transition to lower emitting sources of energy.

We actively and constructively work with federal and provincial governments with the goal of finding the best long-term solutions. We participate 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 Alberta, the Technology Innovation and Emissions Reduction (TIER) regulations came into effect on January 1, 2020. These regulations meet the Government of Canada's stringency requirements for carbon emitting pricing systems for Large Industrial Emitters.

In April 2020, the carbon price in Canada increased from $20 to $30 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. The Company's exposure is mitigated for the Utilities as carbon charges are generally recovered in rates.

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.

The methane regulations affect a portion of our fugitive and venting emissions from the Canadian natural gas pipeline-related operations. We continue to implement programs to reduce or eliminate fugitive and venting emissions in our Natural Gas Distribution and Transmission businesses. Our exposure is mitigated because requirements to upgrade equipment to further reduce methane emissions are expected to be included in rate base on a go-forward basis.

Clean Fuel Standards

In December 2020, the Government of Canada announced that the scope of the Clean Fuel Standards (CFS) had been narrowed to cover only liquid fossil fuels and will no longer include gaseous and solid fuels. The regulations for the liquid class include gasoline, diesel, and oil, which are mainly used in the transportation sector, and will come into effect in 2022.

CLEANER FUELS AND RENEWABLE ENERGY INITIATIVES

We continue to explore and implement opportunities for fuel switching to lower-emitting options for both ourselves and our customers.

Solar Electricity Generation

In the fourth quarter of 2020, we completed Canada's largest off-grid solar and storage installation in the remote northern Alberta community of Fort Chipewyan. In partnership with Three Nations Energy, which is jointly owned by the Athabasca Chipewyan First Nation, Mikisew Cree First Nation and Fort Chipewyan Métis Association, we designed and built the two-phased project that includes a 600-kW and 2,200-kW solar farm. The project will provide about 25 per cent of Fort Chipewyan's electricity needs, reducing local diesel use by approximately 800,000 litres annually – equivalent to a decrease in greenhouse gas emissions of 2,145 tons annually.

Fort Chipewyan Solar Project, Fort Chipewyan, Alberta

Hydrogen

In July 2020, we received funding from Emission Reduction Alberta's Natural Gas Challenge to advance a first-of-its-kind hydrogen blending project in Fort Saskatchewan, Alberta. Once complete, the project will be Canada's largest hydrogen blending project, injecting an initial five per cent hydrogen by volume into a section of Fort Saskatchewan's residential natural gas distribution network.

CLIMATE CHANGE RESILIENCY

We carefully manage climate-related risks, including preparing for, and responding to, extreme weather events through activities such as proactive route 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 table below provides further information on how we address specific climate-related challenges and opportunities.

Category/Driver	Challenges	Opportunities	Mitigation Options/ Measures
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 Hydrogen research projects
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
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	Internal innovation teams to evaluate new technologies
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	Extreme weather events Long-term changes in temperature and weather patterns	Climate change mitigation and adaptation	Climate change resiliency efforts Emergency Responses & 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 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 December 31			Year Ended December 31		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Operating costs	**384**	336	48	**1,309**	1,230	79
Depreciation and amortization	**135**	136	(1)	**520**	496	24
Net finance costs	**94**	93	1	**368**	344	24
Income tax expense (recovery)	**31**	50	(19)	**129**	(29)	158

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $48 million in the fourth quarter of 2020 when compared to the same period in 2019. Higher operating costs were mainly due to the early termination of the Master Services Agreement with Wipro for managed IT services, partially offset by the lower plant and equipment maintenance costs.

Operating costs increased by $79 million in the full year of 2020 when compared to the same period in 2019. Higher operating costs were mainly due to the early termination of the Master Services Agreement with Wipro for managed IT services.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by $1 million in the fourth quarter of 2020 when compared to the same period in 2019 mainly due to lower capital investment.

Depreciation and amortization increased by $24 million in the full year of 2020 when compared to the same period in 2019. Higher depreciation costs were mainly due to a rate change regulatory decision received in the third quarter of 2019 in Electricity Distribution which extends the depreciable life of the assets and resulted in a one-time depreciation adjustment, and continued capital investment in 2020.

NET FINANCE COSTS

Net finance costs increased by $1 million in the fourth quarter of 2020 when compared to the same period in 2019, mainly due to lower interest income from cash investments.

Net finance costs increased by $24 million in the full year of 2020 when compared to the same period in 2019, mainly due to the early settlement of long-term advances receivable from Canadian Utilities in the third quarter of 2019.

INCOME TAX

Income taxes were lower by $19 million in the fourth quarter of 2020 compared to the same period in 2019 mainly due to lower earnings before taxes as a result of the timing of certain utility expenses in the fourth quarter of 2020. Lower taxes were partially offset by the reduction in value of deferred tax assets due to the acceleration of the Alberta tax rate reductions.

Income taxes were higher by $158 million in the full year of 2020 compared to the same period in 2019 mainly due to the realization of the deferred tax benefit from the Alberta tax rate reduction in 2019, partially offset by lower income taxes due to lower earnings before income taxes.

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. On October 20, 2020, the Government of Alberta accelerated the date of the decrease in the provincial corporate income tax rate to 8 per cent effective July 1, 2020.

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, the 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.

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

On September 17, 2020, S&P Global Ratings affirmed CU Inc.'s 'A-' long-term issuer credit rating and stable outlook.

LINES OF CREDIT

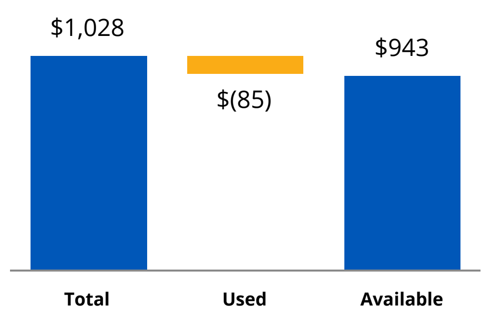
At December 31, 2020, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	—	900
Uncommitted	**128**	85	43
Total	**1,028**	85	943

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 in 2022, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.

Lines of Credit
($ millions)



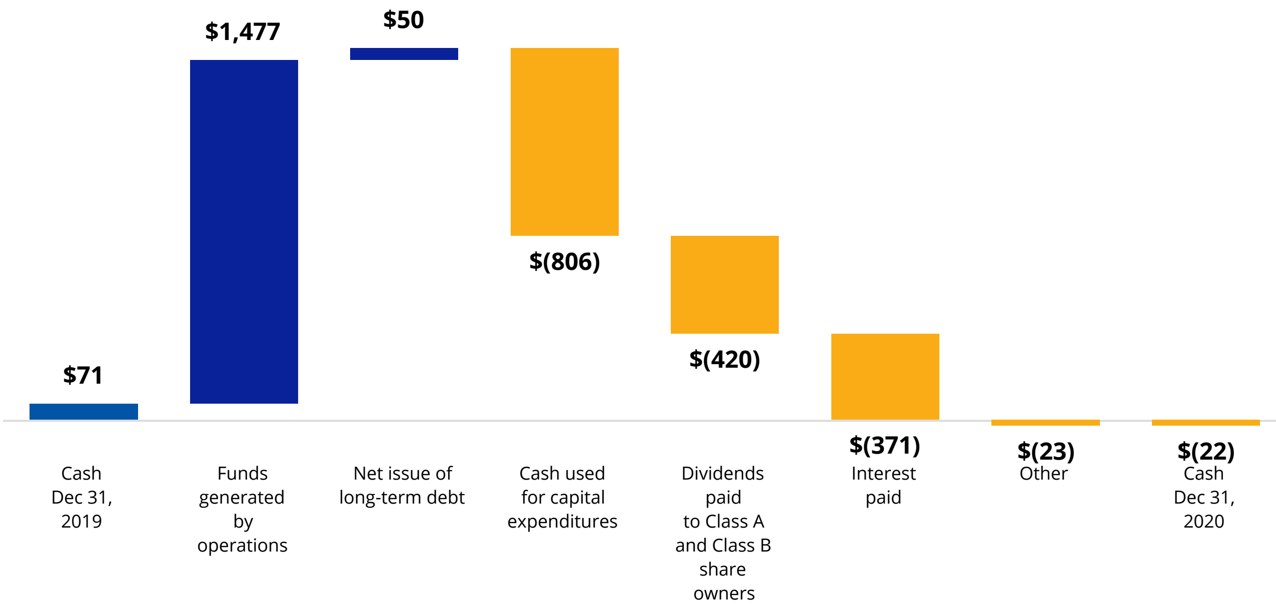
CONSOLIDATED CASH FLOW

At December 31, 2020, the Company's cash position was $(22) million, a decrease of $93 million compared to December 31, 2019. Major movements are outlined in the following table:

($ millions)	2020	2019	Change
		Year Ended December 31	
Funds generated by operations [1]	**1,477**	1,565	(88)
Net issue of long-term debt	**50**	101	(51)
Net repayment of short-term debt	**—**	(25)	25
Cash used for capital expenditures	**(806)**	(966)	160
Dividends paid to Class A and Class B share owners	**(420)**	(385)	(35)
Interest paid	**(371)**	(379)	8
Other	**(23)**	139	(162)
(Decrease) increase in cash position	**(93)**	50	(143)

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

Changes in Consolidated Cash Balances in 2020
($ Millions)



Funds Generated by Operations

Funds generated by operations were $434 million for the fourth quarter of 2020, $21 million higher compared to the same period in 2019. The increase was mainly due to higher customer contributions and the timing of revenues and expenses from regulatory decisions.

Funds generated by operations were $1,477 million in the full year of 2020, $88 million lower compared to the same period in 2019. The decrease was mainly due to the timing of certain revenues and expenses from regulatory decisions.

Cash Used for Capital Expenditures

Cash used for capital investment was $215 million and $806 million in the fourth quarter and full year of 2020, $106 million and $160 million lower compared to the same periods in 2019. The decrease was mainly due to lower capital spending in Natural Gas Transmission due to the completion of construction on the Pembina-Keephills transmission pipeline in the first quarter of 2020 and lower overall capital spend in the Utilities.

Capital expenditure for the fourth quarter and full year of 2020 and 2019 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Electricity Distribution	**56**	73	(17)	**221**	224	(3)
Electricity Transmission	**39**	26	13	**145**	165	(20)
Natural Gas Distribution	**71**	92	(21)	**237**	284	(47)
Natural Gas Transmission	**49**	130	(81)	**203**	293	(90)
Total (1)	**215**	321	(106)	**806**	966	(160)

(1) Includes additions to property, plant and equipment, intangibles and $2 million and $12 million (2019 - $2 million and $15 million) of interest capitalized during construction for the fourth quarter and full year of 2020.

Debt Issuances and Repayments

On September 28, 2020, CU Inc. issued $150 million of 2.609 per cent 30-year debentures. Proceeds from this issuance were used to fund capital investments, to repay existing indebtedness, and for other general corporate purposes of the Utilities.

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 24, 2021, aggregate issuances of debentures were $150 million.

SHARE CAPITAL

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

At February 23, 2021, 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, 2019 through December 31, 2020.

($ 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	180	102	73	**179**

($ millions)	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Revenues	759	638	618	772
Earnings for the period	174	303	112	157
Adjusted earnings				
Electricity	83	90	73	83
Natural Gas	88	26	—	80
Corporate & Other and Intersegment Eliminations	1	—	—	—
Total adjusted earnings	172	116	73	163

ADJUSTED EARNINGS

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.

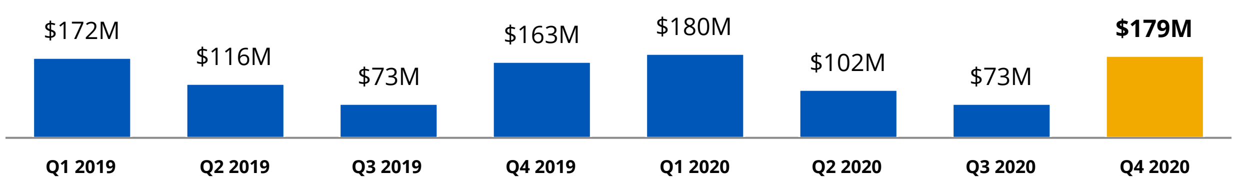
In the first quarter of 2019, earnings were positively impacted mainly by growth in the regulated rate base and cost efficiencies in Natural Gas and Electricity Distribution. In the second, third and fourth quarters of 2019, earnings were positively impacted mainly by the Electricity Transmission 2018-2019 GTA decision, the Natural Gas Transmission 2019-2020 GRA decision, continued growth in the regulated rate base, cost efficiencies, and lower income taxes.

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 in the Utilities were lower compared to the same period in 2019 mainly due to 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 higher than the same period in 2019. Higher earnings were mainly due to cost efficiencies and rate base growth.



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 share owners. 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.

Risk Management Approach

The Company attempts to reduce the risks of project delays and cost increases by careful planning, diligent 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. has operations in several jurisdictions 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 (TIER) 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 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.

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 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, 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

While CU Inc.'s investments are focused on regulated utilities creating a resilient investment portfolio, the extent of the COVID-19 pandemic and its future impact on the Company remains uncertain. In response to the evolving situation, CU Inc.'s Pandemic Plan was activated in February 2020. The plan included 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). Since then, 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 programs. The Company also carries property and liability insurance. The Company actively engages in damage prevention initiatives including proactive direct engagement with the building and excavation communities. The Company also promotes ground disturbance and excavation safety to homeowners and the excavation community.

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	• Operational Excellence
	• Financial Strength	

Description & Context

CU Inc. is subject to the normal risks faced by regulated companies. These risks include 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. These risks also include 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	• Operational Excellence
	• Financial Strength	• 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 ensures 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 flows 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. The Company does not invest any of its cash balances in asset-backed securities. At December 31, 2020, the Company's cash position was approximately $(22.0) million and there were available committed and uncommitted lines of credit of approximately $0.9 billion which can be utilized for general corporate purposes.

Liquidity risk includes contractual financial obligations which the Company 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)	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**
Financial Liabilities						
Accounts payable and accrued liabilities	405	—	—	—	—	—
Accounts payable to parent and affiliate companies	11	—	—	—	—	—
Long-term debt:						
Principal	160	131	100	120	—	7,635
Interest expense	354	345	336	327	325	6,396
	930	476	436	447	325	14,031
Commitments						
Purchase obligations:						
Operating and maintenance agreements	362	303	314	284	43	145
Capital expenditures	207	—	—	—	—	—
Other	12	—	—	—	—	—
	581	303	314	284	43	145
Total	1,511	779	750	731	368	14,176

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 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 is an additional GAAP measure presented in Note 3 of the 2020 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. A reconciliation of funds generated by operations to cash flows from operating activities is presented in this MD&A.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

Adjusted earnings are earnings for the period after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also 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 December 31**
2020 2019	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**361**	**378**	**—**	**—**	**739**
	376	396	—	—	772
Adjusted earnings (loss)	**79**	**101**	**(1)**	**—**	**179**
	83	80	(1)	1	163
Rate-regulated activities	**(6)**	**(20)**	**—**	**—**	**(26)**
	(4)	1	—	—	(3)
IT Common Matters decision	**(5)**	**(4)**	**—**	**—**	**(9)**
	(3)	(3)	—	—	(6)
Early termination of the master service agreement for managed IT services	**(23)**	**(29)**	**—**	**—**	**(52)**
	—	—	—	—	—
Dividends on equity preferred shares of the Company	**2**	**1**	**—**	**—**	**3**
	2	1	—	—	3
Other	**(1)**	**1**	**—**	**—**	**—**
	—	—	—	—	—
Earnings (loss) for the period	**46**	**50**	**(1)**	**—**	**95**
	78	79	(1)	1	157

($ millions)					Year Ended December 31
2020					
2019	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**1,356**	**1,377**	**—**	**(3)**	**2,730**
	1,418	1,371	—	(2)	2,787
Adjusted earnings (loss)	**305**	**235**	**(6)**	**—**	**534**
	329	194	(1)	2	524
Prepayment penalty received on early settlement of long-term advances to affiliate company	**—**	**—**	**—**	**—**	**—**
	—	—	12	—	12
Rate-regulated activities	**(44)**	**(18)**	**—**	**—**	**(62)**
	121	101	—	—	222
IT Common Matters decision	**(11)**	**(8)**	**—**	**—**	**(19)**
	(12)	(11)	—	—	(23)
Early termination of the master service agreement for managed IT services	**(23)**	**(29)**	**—**	**—**	**(52)**
	—	—	—	—	—
Dividends on equity preferred shares of the Company	**6**	**5**	**—**	**—**	**11**
	6	5	—	—	11
Other	**(4)**	**(4)**	**—**	**—**	**(8)**
	—	—	—	—	—
Earnings (loss) for the period	**229**	**181**	**(6)**	**—**	**404**
	444	289	11	2	746

PREPAYMENT PENALTY RECEIVED ON EARLY SETTLEMENT OF LONG-TERM ADVANCES TO AFFILIATE COMPANY

In 2019, the Company recorded $12 million after-tax related to a prepayment penalty fee on the early repayment of $78 million of long-term advances issued to its affiliate company. The repaid amounts were originally due from 2020 to 2023.

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 December 31			Year Ended December 31		
($ millions)	**2020**	**2019**	**Change**	**2020**	**2019**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**19**	10	9	**78**	65	13
Impact of (warmer) colder temperatures (2)	**(5)**	(1)	(4)	**2**	13	(11)
Revenues to be billed in future periods						
Deferred income taxes (3)	**(33)**	(24)	(9)	**(104)**	(95)	(9)
Deferred income taxes due to decrease in provincial corporate income tax (4)	**—**	—	—	**—**	210	(210)
Regulatory decisions received (see below)	**—**	3	(3)	**—**	6	(6)
Settlement of regulatory decisions and other items (5)	**(7)**	9	(16)	**(38)**	23	(61)
	(26)	(3)	(23)	**(62)**	222	(284)

(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 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 was phased in increments from July 1, 2019. As a result of this change, the Alberta Utilities decreased deferred income taxes and increased earnings in 2019 by $210 million.

(5) In 2020, Electricity Distribution recorded a decrease in earnings of $26 million related to payments to customers for transmission costs and capital related items.

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	23	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 Alberta Utilities Commission (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 per cent and to apply a glide path that reduces pricing by 4.61 per cent in each of years 2 through 10. The reduction in adjusted earnings resulting from the decision for the period January 1, 2015 to December 31, 2019 was $23 million.
2.	Electricity Transmission General Tariff Application (GTA)	(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 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 for the year ended December 31, 2020 was $19 million (2019 - $23 million).

EARLY TERMINATION OF THE MASTER SERVICE AGREEMENT FOR MANAGED IT SERVICES

In the fourth quarter of 2020, the Company's parent, Canadian Utilities Limited, signed a Master Services Agreement with IBM Canada Ltd. to provide managed information technology services. These services are currently provided by Wipro Ltd. (Wipro) under a ten-year MSA maturing in December 2024. The transition of the managed IT services from Wipro to IBM will be completed over a six-month period, which commenced February 1, 2021.

The Company has recognized costs of $52 million after-tax, which represents management’s best estimate of the costs to exit the Wipro MSA. The actual costs will be finalized later in 2021. As these costs are one-time in nature, they are excluded from adjusted earnings.

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 related to the continued transformation and realignment of certain functions in the Company.

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 2020 Consolidated Financial Statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 21 of the 2020 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, 2020, 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 2021 Consolidated Financial Statements once adopted.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2020, 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, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2020, 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.

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.

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 2020 Consolidated Financial Statements and MD&A for the year ended December 31, 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

AESO means the Alberta Electric System Operator.

Alberta Utilities or 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 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.

GHG means greenhouse gas.

IFRS means International Financial Reporting Standards.

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

Kilowatt (kW) is a measure of electric power equal to 1,000 watts.

Megawatt (MW) is a measure of electric power equal to 1,000,000 watts.

PBR means Performance Based Regulation.

APPENDIX 1

FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2020 and 2019 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2020**	**2019**
Revenues	**739**	772
Costs and expenses		
Salaries, wages and benefits	**(58)**	(47)
Energy transmission and transportation	**(57)**	(49)
Plant and equipment maintenance	**(48)**	(63)
Fuel costs	**(3)**	(3)
Purchased power	**(26)**	(22)
Depreciation and amortization	**(135)**	(136)
Franchise fees	**(64)**	(67)
Property and other taxes	**(15)**	(16)
Other	**(113)**	(69)
	(519)	(472)
Operating profit	**220**	300
Interest income	**—**	2
Interest expense	**(94)**	(95)
Net finance costs	**(94)**	(93)
Earnings before income taxes	**126**	207
Income taxes	**(31)**	(50)
Earnings for the period	**95**	157

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2020	2019
Operating activities		
Earnings for the period	**95**	157
Adjustments to reconcile earnings to cash flows from operating activities	**339**	256
Changes in non-cash working capital	**(23)**	(8)
Cash flows from operating activities	**411**	405
Investing activities		
Additions to property, plant and equipment	**(180)**	(297)
Proceeds on disposal of property, plant and equipment	**—**	1
Additions to intangibles	**(33)**	(22)
Changes in non-cash working capital	**1**	26
Cash flows used in investing activities	**(212)**	(292)
Financing activities		
Issue of long-term debt	**—**	1
Repayment of long-term debt	**(100)**	—
Repayment of lease liabilities	**(1)**	—
Dividends paid on equity preferred shares	**(3)**	(3)
Dividends paid to Class A and Class B share owner	**(335)**	(140)
Interest paid	**(110)**	(110)
Other	**—**	(1)
Cash flows used in financing activities	**(549)**	(253)
Decrease in cash position	**(350)**	(140)
Beginning of period	**328**	211
End of period	**(22)**	71