CU INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 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 six months ended June 30, 2023.

This MD&A was prepared as of July 26, 2023, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2023. Additional information, including the Company's previous MD&As, Annual Information Form, and audited consolidated financial statements for the year ended December 31, 2022, is available on SEDAR+ at www.sedarplus.ca. Information contained in the MD&A for the year ended December 31, 2022 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 $670 million and $1,547 million in the second quarter and first six months of 2023 were $68 million and $108 million lower compared to the same periods in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation Performance Based Regulation (PBR) term now being passed onto customers under the 2023 Cost of Service (COS) rebasing framework, and the AUC decision to maximize the collection of 2021 deferred revenues in 2022 as a result of rate relief provided to customers in 2021. In addition, Electricity Transmission revenues were lower due to the approved negotiated settlement agreement which reflects ceased collection and a refund of previously collected federal deferred income taxes. These actions do not significantly impact adjusted earnings, however, they will reduce revenues and cash flows from 2023 to 2025, providing rate relief to customers. Lower revenues were partially offset by higher flow-through revenues in Electricity Distribution.

ADJUSTED EARNINGS

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Electricity						
Electricity Distribution [1]	**27**	41	(14)	**65**	88	(23)
Electricity Transmission [1]	**37**	44	(7)	**81**	87	(6)
Total Electricity	**64**	85	(21)	**146**	175	(29)
Natural Gas						
Natural Gas Distribution [1]	**—**	12	(12)	**88**	111	(23)
Natural Gas Transmission [1]	**23**	23	—	**48**	46	2
Total Natural Gas	**23**	35	(12)	**136**	157	(21)
Corporate & Other and Intersegment Eliminations	**—**	—	—	**(1)**	(1)	—
Total Utilities [2]	**87**	120	(33)	**281**	331	(50)

(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 $87 million and $281 million in the second quarter and first six months of 2023 were $33 million and $50 million lower compared to the same periods in 2022 mainly due to cost efficiencies generated by Electricity Distribution and Natural Gas Distribution over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. In the first six months of 2023, lower earnings were partially offset by growth in rate base and 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 $27 million and $65 million in the second quarter and first six months of 2023 were $14 million and $23 million lower than the same periods in 2022 mainly due to cost efficiencies generated over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework, 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 $37 million and $81 million in the second quarter and first six months of 2023 were $7 million and $6 million lower compared to the same periods in 2022 mainly due to the second quarter decision received from the AUC on the 2018-2021 Deferral Application which denied recovery of forgone return related to certain cancelled projects.

Natural Gas Distribution

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

Natural Gas Distribution adjusted earnings in the second quarter and first six months of 2023 were $12 million and $23 million lower than the same periods in 2022 mainly due to cost efficiencies generated over the second generation PBR term now being passed onto customers under the 2023 COS rebasing framework. Lower earnings were partially offset by growth in rate base and new cost efficiencies realized in the first six months of 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 $23 million in the second quarter of 2023 were comparable to the same period in 2022.

Natural Gas Transmission adjusted earnings of $48 million in the first six months of 2023 were $2 million higher compared to 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 second quarter and first six months of 2023 were comparable to the same periods in 2022.

RECENT DEVELOPMENTS

Branding Initiative

We are in the process of launching a new brand. ATCO Energy Systems will be the new brand for our gas and electrical utility services business. This brand is expected to be fully launched and integrated into our marketing and communications as the year progresses.

The branding does not impact our reporting segments within our external documents in this quarter.

Executive Appointment

As the organization continues to look to the future, we are pleased to announce the following executive appointment, effective July 1, 2023.

Wayne Stensby as Chief Operating Officer of ATCO Energy Systems, the newly branded gas and electrical utility services business.

REGULATORY DEVELOPMENTS

COMMON MATTERS

Performance Based Regulation Reopeners

On June 30, 2023, the AUC initiated a proceeding for Electricity Distribution and Natural Gas Distribution as the reopener clause was triggered by both utilities in 2022, the final year of the second generation PBR term. The PBR reopener thresholds are triggered if a utility's earnings are +/- 500 basis points from the approved Return on Equity (ROE) in one year or +/- 300 basis points from the approved ROE in two consecutive years. In this proceeding, the AUC will determine whether a reopener and any adjustment of Electricity Distribution and Natural Gas Distribution's 2018 to 2022 plans are required.

Similar to the first generation of PBR, the increase in earnings in the second generation of PBR was a direct result of management's response to the incentive to implement efficiency improvements and not due to a flaw in the PBR framework. Therefore, we do not anticipate any adjustment as a result of this proceeding.

ELECTRICITY TRANSMISSION

ATCO Electric Transmission 2018-2021 Deferral Application

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

ATCO Electric Transmission 2023-2025 GTA

On May 19, 2022, ATCO Electric Transmission filed a GTA for its operations for 2023, 2024, and 2025. A comprehensive negotiated settlement was reached in December 2022 with all of the participating interveners and an application was filed with the AUC in January 2023. On May 5, 2023, the AUC approved the negotiated settlement agreement in its entirety. Certain items were excluded from the negotiated settlement, including a request to recover a one-time depreciation adjustment related to the Jasper Palisades plant. The AUC denied this recovery which resulted in an impairment of the asset.

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, published in April 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 are available on our website at www.canadianutilities.com.

CLIMATE CHANGE AND ENERGY TRANSITION

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

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the second quarter and first six months 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 June 30			**Six Months Ended June 30**		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Operating costs	**338**	315	23	**714**	705	9
Depreciation, amortization and impairment	**149**	136	13	**290**	274	16
Net finance costs	**88**	88	—	**176**	180	(4)
Income tax expense	**18**	46	(28)	**81**	121	(40)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation, amortization, and impairment increased by $23 million in the second quarter of 2023 compared to the same period in 2022. Higher operating costs were mainly due to increased plant and equipment maintenance, technology costs, and increased flow-through costs, partially offset by lower franchise fees at Natural Gas Distribution.

Operating costs increased by $9 million in the first six months of 2023 compared to the same period in 2022. Higher operating costs were mainly due to the factors outlined above, in addition to legal and other costs related to the Wipro Ltd. (Wipro) Master Services Agreement (MSA) matter that was concluded on February 26, 2023. Higher operating costs were partially offset by costs incurred in 2022 related to the AUC enforcement proceeding, lower franchise fees at Natural Gas Distribution, and lower purchased power expense after the sale of a controlling interest in Northland Utilities Enterprises Ltd. (NUE) in 2022.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment increased by $13 million and $16 million in the second quarter and first six months of 2023 compared to the same periods in 2022 mainly due to an $8 million impairment of certain electricity generation assets that had been removed from service and determined to have no remaining value in Electricity Transmission, and ongoing capital investment.

NET FINANCE COSTS

Net finance costs in the second quarter of 2023 were comparable to the same period in 2022.

Net finance costs decreased by $4 million in the first six months 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 $28 million in the second quarter of 2023 compared to the same period in 2022 mainly due to lower IFRS earnings before income taxes, which is primarily driven by lower revenues.

Income taxes were lower by $40 million in the first six months of 2023 compared to the same period in 2022 mainly due to lower IFRS earnings before income taxes, which is primarily driven by lower revenues, 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

The following table shows the credit ratings assigned to CU Inc. at June 30, 2023.

	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+

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

LINES OF CREDIT

At June 30, 2023, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	Total	Used	Available
Long-term committed	**900**	—	900
Uncommitted	**100**	32	68
Total	**1,000**	32	968

Of the $1,000 million in total lines of credit, $100 million was in the form of uncommitted credit facilities with no set maturity date. The other $900 million in credit lines was committed, with maturities between 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 June 30, 2023, the Company's cash position was $(170) million, a decrease of $158 million compared to December 31, 2022 mainly due to cash used to fund the capital investment program, dividends paid, and payments of debt and interest, partially offset by cash flows from operating activities achieved during the first six months of 2023.

Cash Flows from Operating Activities

Cash flows from operating activities of $254 million and $823 million in the second quarter and first six months of 2023 were $189 million and $240 million lower than the same periods in 2022 mainly due to lower cash flows from the recovery of the 2021 deferral of rate increases, timing of certain revenue and expenses, and the timing of payables.

Cash Used for Capital Expenditures

Cash used for capital expenditures was $265 million and $506 million in the second quarter and first six months of 2023, $45 million and $88 million higher compared to the same periods in 2022 mainly due to ongoing capital investment.

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

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Electricity Distribution	**86**	64	22	**153**	115	38
Electricity Transmission	**63**	46	17	**141**	116	25
Natural Gas Distribution	**88**	78	10	**153**	136	17
Natural Gas Transmission	**28**	32	(4)	**59**	51	8
Total (1) (2)	**265**	220	45	**506**	418	88

(1) Includes additions to property, plant and equipment, intangibles, and $3 million and $7 million (2022 - $3 million and $5 million) of capitalized interest during construction for the second quarter and first six months of 2023.

(2) Includes $27 million and $78 million for the second quarter and first six months of 2023 (2022 - $57 million and $99 million) of capital expenditures that were funded with the assistance of customer contributions.

Debenture Repayment

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

SHARE CAPITAL

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

At July 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 September 30, 2021 through June 30, 2023.

($ millions)	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Revenues	659	837	877	**670**
Earnings for the period	93	136	209	**77**
Adjusted earnings (loss)				
Electricity	81	70	82	**64**
Natural Gas	6	83	113	**23**
Corporate & Other and Intersegment Eliminations	(1)	(2)	(1)	**—**
Total adjusted earnings [1]	86	151	194	**87**
($ millions)	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**
Revenues	623	826	917	738
Earnings for the period	61	132	222	153
Adjusted earnings (loss)				
Electricity	73	72	90	85
Natural Gas	3	92	122	35
Corporate & Other and Intersegment Eliminations	(1)	—	(1)	—
Total adjusted earnings [1]	75	164	211	120

(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 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.

Adjusted earnings in the second 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.

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.
- On April 14, 2022, the AUC Enforcement branch and ATCO Electric Transmission filed a settlement with the AUC regarding a sole source contract for the Jasper interconnection project. On June 29, 2022, the AUC issued its decision approving the settlement in its entirety. In the fourth quarter of 2021 and first quarter of 2022, the Company recognized costs of $14 million and $27 million (after-tax), respectively, related to the proceeding.
- To safeguard the health and safety of employees, business partners, customers and communities, the Company required its employees, subject to certain exemptions, to be vaccinated against COVID-19 effective January 1, 2022. Employees who did not demonstrate they were vaccinated or did not have an approved exemption were provided severance. In the first quarter of 2022, the Company incurred $8 million (after-tax) in severance and related costs associated with the Workplace COVID-19 vaccination standard.
- On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in NUE from 14 per cent to 50 per cent. The transaction resulted in a gain on sale of $5 million (after-tax). Effective March 31, 2022, the Company no longer consolidates NUE as a controlled subsidiary, and instead, accounts for its interest in NUE as an investment in joint venture using the equity method.
- In the second quarter of 2023, the Company recognized an impairment of $8 million (after-tax) relating to certain electricity generation assets in Electricity Transmission. These assets had been removed from service and it was determined that they no longer had any remaining value.

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 June 30**
2023 2022	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**349**	**322**	**—**	**(1)**	**670**
	354	385	—	(1)	738
Adjusted earnings	**64**	**23**	**—**	**—**	**87**
	85	35	—	—	120
Impairment	**(8)**	**—**	**—**	—	**(8)**
	—	—	—	—	—
Rate-regulated activities	**12**	**(11)**	**—**	**—**	**1**
	7	27	—	—	34
IT Common Matters decision	**(2)**	**(3)**	**—**	**—**	**(5)**
	(2)	(1)	—	—	(3)
Dividends on equity preferred shares of the Company	**1**	**1**	**—**	**—**	**2**
	1	1	—	—	2
Earnings for the period	**67**	**10**	**—**	**—**	**77**
	91	62	—	—	153

($ millions) **2023** 2022	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Six Months Ended June 30 Consolidated
Revenues	**718**	**831**	**—**	**(2)**	**1,547**
	747	910	—	(2)	1,655
Adjusted earnings (loss)	**146**	**136**	**(1)**	**—**	**281**
	175	157	(1)	—	331
Impairment	**(8)**	**—**	**—**	**—**	**(8)**
	—	—	—	—	—
Rate-regulated activities	**16**	**5**	**—**	**—**	**21**
	21	56	—	—	77
IT Common Matters decision	**(5)**	**(5)**	**—**	**—**	**(10)**
	(4)	(3)	—	—	(7)
Transition of managed IT services	**(1)**	**(1)**	**—**	**—**	**(2)**
	—	—	—	—	—
Dividends on equity preferred shares of the Company	**2**	**2**	**—**	**—**	**4**
	2	2	—	—	4
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	**150**	**137**	**(1)**	**—**	**286**
	169	207	(1)	—	375

IMPAIRMENT

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

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 June 30			Six Months Ended June 30		
($ millions)	**2023**	**2022**	**Change**	**2023**	**2022**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**36**	31	5	**66**	62	4
Impact of colder temperatures [2]	**—**	4	(4)	**—**	—	—
Revenues to be billed in future periods						
Deferred income taxes [3]	**(38)**	(23)	(15)	**(72)**	(45)	(27)
Impact of warmer temperatures [2]	**(9)**	—	(9)	**(7)**	(2)	(5)
Settlement of regulatory decisions and other items						
Distribution rate relief [4]	**4**	30	(26)	**9**	65	(56)
Other [5]	**8**	(8)	16	**25**	(3)	28
	1	34	(33)	**21**	77	(56)

(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 three and six months ended June 30, 2023, $4 million and $9 million (after-tax) (2022 - $30 million and $65 million (after-tax)) was billed to customers.

(5) In the three and six months ended June 30, 2023, Electricity Distribution recorded an increase in earnings of $8 million and $24 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 and six months ended June 30, 2023 was $5 million and $10 million (after-tax) (2022 - $3 million and $7 million (after-tax)).

TRANSITION OF MANAGED IT SERVICES

In the six months ended June 30, 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 the first quarter of 2022, the Company incurred $8 million (after-tax) in severance and related costs associated with the Workplace COVID-19 vaccination standard.

GAIN ON SALE OF OWNERSHIP INTEREST IN A SUBSIDIARY COMPANY

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

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

($ millions) **Three Months Ended June 30**

2023 / 2022	CU Inc.						
	Electricity			Natural Gas			**Consolidated**
	Electricity Distribution	**Electricity Transmission**	**Consolidated Electricity**	**Natural Gas Distribution**	**Natural Gas Transmission**	**Consolidated Natural Gas**	
Adjusted earnings	**27**	**37**	**64**	**—**	**23**	**23**	**87**
	41	44	85	12	23	35	120
Impairment	**—**	**(8)**	**(8)**	**—**	**—**	**—**	**(8)**
	—	—	—	—	—	—	—
Rate-regulated activities	**1**	**11**	**12**	**(8)**	**(3)**	**(11)**	**1**
	—	7	7	30	(3)	27	34
IT Common Matters decision	**(1)**	**(1)**	**(2)**	**(2)**	**(1)**	**(3)**	**(5)**
	(1)	(1)	(2)	(1)	—	(1)	(3)
Dividends on equity preferred shares of the Company	**1**	**—**	**1**	**—**	**1**	**1**	**2**
	1	—	1	—	1	1	2
Other	**3**	**(3)**	**—**	**—**	**—**	**—**	**—**
	—	—	—	—	—	—	—
Earnings (loss) for the period	**31**	**36**	**67**	**(10)**	**20**	**10**	**77**
	41	50	91	41	21	62	153

($ millions)	CU Inc.						
2023 / 2022	Electricity			Natural Gas			Consolidated
Six Months Ended June 30	Electricity Distribution	Electricity Transmission	Consolidated Electricity	Natural Gas Distribution	Natural Gas Transmission	Consolidated Natural Gas	
Adjusted earnings	**65**	**81**	**146**	**88**	**48**	**136**	**282**
	88	87	175	111	46	157	332
Impairment	**—**	**(8)**	**(8)**	**—**	**—**	**—**	**(8)**
	—	—	—	—	—	—	—
Rate-regulated activities	**11**	**5**	**16**	**10**	**(5)**	**5**	**21**
	1	20	21	57	(1)	56	77
IT Common Matters decision	**(3)**	**(2)**	**(5)**	**(4)**	**(1)**	**(5)**	**(10)**
	(2)	(2)	(4)	(2)	(1)	(3)	(7)
Transition of managed IT services	**(1)**	**—**	**(1)**	**(1)**	**—**	**(1)**	**(2)**
	—	—	—	—	—	—	—
Dividends on equity preferred shares of the Company	**1**	**1**	**2**	**1**	**1**	**2**	**4**
	1	1	2	1	1	2	4
AUC enforcement proceeding	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	—	(27)	(27)	—	—	—	(27)
Workplace COVID-19 vaccination standard	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	(2)	(1)	(3)	(3)	(2)	(5)	(8)
Gain on sale of ownership interest in a subsidiary company	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	5	—	5	—	—	—	5
Other	**3**	**(3)**	**—**	**—**	**—**	**—**	**—**
	—	—	—	—	—	—	—
Earnings for the year	**76**	**74**	**150**	**94**	**43**	**137**	**287**
	91	78	169	164	43	207	376

OTHER FINANCIAL INFORMATION

INTERNAL CONTROL OVER FINANCIAL REPORTING

The certification of interim filings for the interim period ended June 30, 2023, requires that the Company disclose in the interim MD&A any changes in the Company's internal controls over financial reporting (ICFR) that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. The Company confirms that no such changes were identified in the Company's ICFR during the three months beginning on April 1, 2023 and ending on June 30, 2023.

FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", "goals", "targets", "strategy", "future", and similar expressions. In particular, forward-looking information in this MD&A includes, but is not limited to, references to: strategic plans and targets, including ESG targets and the 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; the expected term of contracts; the impact or benefits of contracts; re-branding plans; and future growth.

Although the Company believes that the expectations reflected in the forward-looking information are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and no assurance can be given that these expectations will prove to be correct. Forward-looking information should not be unduly relied upon. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors, which may cause actual results, levels of activity, and achievements to differ materially from those anticipated in such forward-looking information. The forward-looking information reflects the Company's beliefs and assumptions with respect to, among other things, the Company's ability to meet its initial set of 2030 ESG targets and successfully achieve its net-zero GHG target by 2050; the development and performance of technology and technological innovations and the ability to otherwise access and implement all technology necessary to achieve GHG and other ESG targets; continuing collaboration with certain business partners, and regulatory and environmental groups; the performance of assets and equipment; demand levels for oil, natural gas, gasoline, diesel and other energy sources; certain levels of future energy use; future production rates; future revenue and earnings; the ability to meet current project schedules, and other assumptions inherent in management's expectations in respect of the forward-looking information identified herein.

The Company's actual results could differ materially from those anticipated in this forward-looking information as a result of, among other things, risks inherent in the performance of assets; capital efficiencies and cost savings; applicable laws, regulations and government policies; regulatory decisions; competitive factors in the industries in which the Company operates; prevailing market and economic conditions; credit risk; interest rate fluctuations; the availability and cost of labour, materials, services, and infrastructure; the development and execution of projects; prices of electricity, natural gas, natural gas liquids, and renewable energy; the development and performance of technology and new energy efficient products, services, and programs including but not limited to the use of zero-emission and renewable fuels, carbon capture, and storage, electrification of equipment powered by zero-emission energy sources and utilization and availability of carbon offsets; potential termination or breach of contract by contract counterparties; the occurrence of unexpected events such as fires, severe weather conditions, explosions, blow-outs, equipment failures, transportation incidents, and other accidents or similar events; and other risk factors, many of which are beyond the control of the Company. Due to the interdependencies and correlation of these factors, the impact of any one material assumption or risk on a forward-looking statement cannot be determined with certainty. Readers are cautioned that the foregoing lists are not exhaustive. For additional information about the principal risks that the Company faces, see "Business Risks and Risk Management" in 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 six months ended June 30, 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

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.