CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022.

This MD&A was prepared as of March 1, 2023, and should be read with the Company's audited consolidated financial statements (2022 Consolidated Financial Statements) for the year ended December 31, 2022. Additional information, including the Annual Information Form (2022 AIF) that will be filed on March 30, 2023, is available on SEDAR at www.sedar.com.

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

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

TABLE OF CONTENTS

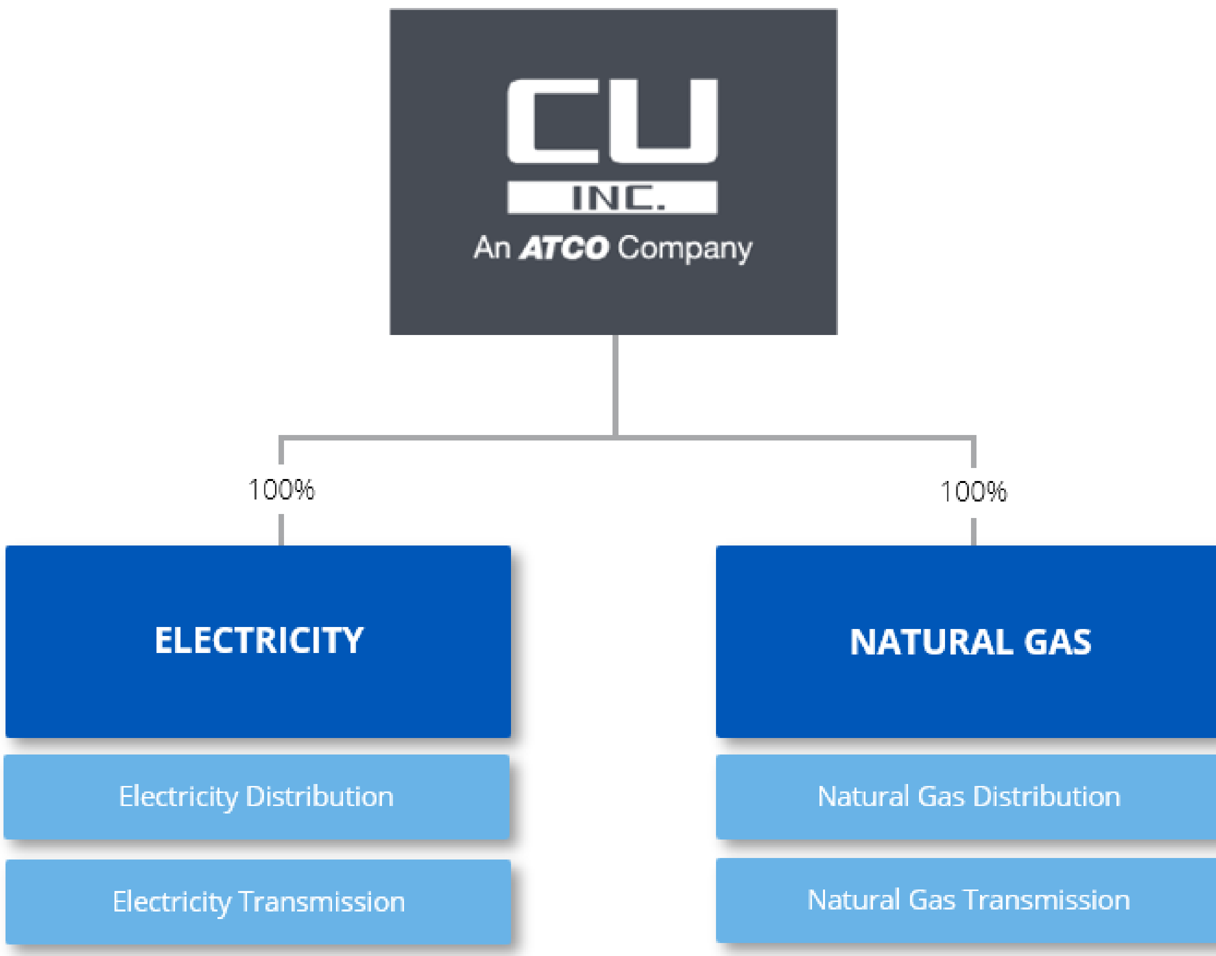
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 3,700 employees and assets of $18 billion comprised of rate-regulated utility operations in electricity and natural gas distribution and transmission. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

THE UTILITIES

The Company's activities are conducted through regulated businesses in two Business Units within western and northern Canada: Electricity, which includes Electricity Distribution and Electricity Transmission, and Natural Gas, which includes Natural Gas Distribution and Natural Gas Transmission.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



The 2022 Consolidated Financial Statements include the accounts of CU Inc. and all of its subsidiaries. The 2022 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar.

CU INC. STRATEGIES

Our strategy is built upon our core values and our drive to continue to create prosperity and opportunity for generations to come.

Innovation, growth and financial strength provide the foundation from which we have built our Company. Our long-term success depends on our ability to continue offering our customers premier, comprehensive and integrated solutions to meet their needs. We protect our core utility assets and invest in activities aimed at advancing the energy transition and ensuring long-term resiliency.

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

CORE VALUES

Our pursuit of excellence governs the way we act and make decisions. We strive to live by the following values:

Safety

Safety is the first consideration in everything we do. We hold a shared belief that safety must direct all our day-to-day priorities and decisions, and we are accountable for understanding and following the health and safety requirements for any work we undertake.

Integrity

We are honest, ethical and treat others with fairness, dignity and respect. We make good decisions, take personal ownership of tasks, are responsible for our actions and deliver on our commitments.

Agility

We are creative, innovative and take a measured approach to opportunities and risk, balanced with a long term perspective. We stay relevant, reward action and learn from failure.

Caring

We care about our customers, our employees and their families, our communities and the environment. We seek to understand and care enough to challenge each other.

Collaboration

We work together, share ideas, recognize the contribution of others and learn from our failures and successes. We are clear about our intentions and communicate openly especially when problems or issues arise. We value and encourage diversity and different perspectives. We work together to build strong networks.

SUSTAINABILITY

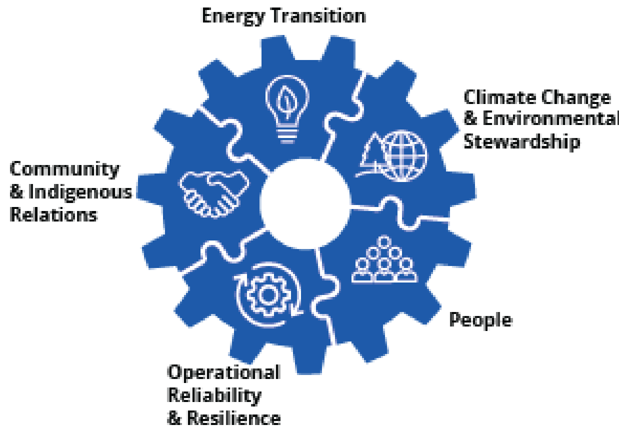
CU Inc.'s sustainability strategy has always been driven by a holistic, long-term perspective, one that prioritizes our sustainability objectives and environmental, social and governance (ESG) performance while reliably delivering essential products and services to our customers, each and every day.

Energy Transition

We are actively transitioning our assets to meet the needs of a new energy future while maintaining energy safety, reliability and affordability. We are investing in innovative technology and developing solutions to better serve our customers throughout the global energy transition.

Climate Change & Environmental Stewardship

Our Climate Change Strategy not only minimizes our environmental footprint, it accelerates the clean energy transition. Critical to this approach is our focus on decarbonization and exploring new and more efficient ways to generate, transport and conserve energy.



People

Health and safety are the first considerations in everything we do. And, while we protect the people in our workforce and communities, we know we must also reflect the people in our communities by promoting diversity, equity and inclusion.

Operational Reliability & Resilience

We prepare for the future so that even in times of crisis our system continues to provide the essential services our customers need. We are committed to providing reliable energy, working around the clock to minimize service outages, and ensuring our assets are resilient for decades to come.

Community & Indigenous Relations

Building respectful and mutually beneficial relationships with communities, with Indigenous Peoples and with businesses has long defined how we do business. Together with our Indigenous and community partners, we are continually exploring new ways to collaborate.

STRATEGIC ENVIRONMENTAL, SOCIAL AND GOVERNANCE TARGETS FOR 2030

In January 2022, ATCO, CU Inc.'s ultimate parent company, announced an initial set of 2030 environmental, social and governance targets, and a commitment to achieve net-zero greenhouse gas (GHG) emissions by 2050. ATCO (with the support of CU Inc.) is driving towards achieving the 2030 targets that include reducing operational GHG intensity and customer emissions, growing its renewable energy footprint and transitional products, increasing economic benefits for Indigenous partners, continuing its focus on safety, and further promoting diversity, equity and inclusion in the workplace. The 2050 net-zero commitment builds upon ATCO's significant progress in recent years in decarbonizing its portfolio.

ATCO continues to evaluate further ESG targets and conduct additional analyses with respect to its 2050 net-zero commitment. Additional information and progress towards ATCO's ESG targets is included in this MD&A and will be included in ATCO's annual Sustainability Report, which will be available in May 2023.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

CU Inc.'s financial and operational achievements in 2022 relative to the strategies outlined are included in this MD&A, the 2022 Consolidated Financial Statements and the forthcoming 2022 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 2022.

Fully Met | Mostly Met | Half Met | Partially Met | Not Met

INNOVATION

New and existing products and services

2022 Target

Continue to progress energy transition strategies to increase ownership, develop or manage electricity generation, and/or modernize natural gas and/or electricity delivery.

Performance

CU Inc. continued to focus on energy transition with a specific emphasis on electricity generation, such as solar, and developing strategic partnerships.

- **Beaver Creek Solar Facility Electricity Purchase Agreement** - The Yukon Electrical Company Limited (ATCO Electric Yukon (AEY)) and Copper Niisüü Limited Partnership (CNLP) finalized a landmark Electricity Purchase Agreement (EPA) that will help the White River First Nation replace more than 55 per cent of the diesel generation in the community.
- **Burwash Landing Wind Facility Electricity Purchase Agreement** - AEY and Kluane First Nation finalized an EPA that will help reduce reliance on diesel and generate economic benefits in the community.
- **The Government of the Northwest Territories (GNWT) Electric Vehicle (EV) Investment** - GNWT announced it is providing Northland Utilities with up to $300,000 to support the installation of two public EV fast-charger stations in Yellowknife.

Further details can be found in the Recent Developments section of this MD&A.

2022 Target

Continue to prioritize working with remote communities to reduce their reliance on diesel fuels in a way that continues to support economic growth, energy independence, reconciliation and community building with Indigenous peoples.

Performance

AEY finalized two landmark Electricity Purchase Agreements with the Copper Niisüü Limited Partnership as well as the Kluane First Nation for the upcoming Beaver Creek solar and the Burwash Landing wind facilities.

In 2022, Canadian Utilities was selected as the partner and commenced construction on the Métis Crossing Solar Project (MCSP), a community generation solar project located in Smoky Lake County at Métis Crossing, a signature cultural destination of the Métis Nation of Alberta (MNA). The MCSP is a collaboration between the MNA, the Town of Smoky Lake, and Smoky Lake County. The development of the solar facility will provide economic and community benefits to all community partners.

In 2022, ATCO, CU Inc.'s ultimate parent company, formed a partnership with Indigenous Clean Energy (ICE), which is a pan-Canadian, not-for-profit platform focused on promoting Indigenous inclusion in Canada’s energy future by advancing Indigenous leadership and collaboration. This partnership provides opportunities for us to support Indigenous projects, engage and mentor the community clean energy champions, build capacity, and ensure project success.

With participation from energy experts across our company, ATCO hosted a free four-part webinar series, "*The Project Lifecycle Of Remote Community Clean Energy Projects*". These webinars provided the opportunity for communities to learn about the critical stages and key considerations in the development of community clean energy projects. The webinars are hosted on our website and YouTube channel, extending their reach to any interested parties.

GROWTH

Regulated capital investment

2022 Target	Continue to invest in technology and the modernization of both the natural gas and electricity networks to enhance sustainability and flexibility.
Performance	Electricity developed a comprehensive Grid Modernization roadmap and strategy, and the Alberta Utilities Commission (AUC) approved, as filed, the scope, timing, and 2023 forecast of this Grid Modernization program in the 2023 Cost of Service Application. Digitization of the grid continued with further progression on implementing the technology to support the Advanced Distribution Management Systems (ADMS). As of year end, our control center has a dedicated SCADA (supervisory control and data acquisition) system serving our distribution grid. Additionally the deployment of Advanced Metering Infrastructure (AMI) continued to advance with a total of 8,606 installations completed in 2022.
2022 Target	Continue to advance replacement and improvement projects to ensure that the safety and reliability of our gas and electricity systems are properly maintained and managed.
Performance	In 2022, all major components were completed for the Urban Pipeline Replacement (UPR) Program, a program to replace and relocate aging, high-pressure natural gas pipelines in the densely populated areas of Calgary and Edmonton to address safety, reliability and support future growth. Final clean up and project close outs remain to be completed in 2023. As part of Electricity's ongoing improvement and replacement programs, in 2022 Electricity advanced its wildfire mitigation program to address the ongoing risk of a powerline-related wildfire ignition in light of the increasing frequency of severe weather events. The program includes a focus on vegetation management in conjunction with ongoing life extension programs. In 2022, Electricity completed the second phase of its three phase replacement of a 97-km transmission line in central Alberta. The line will facilitate increased reliability in the region and enable the addition of renewable generation onto Alberta's electricity grid.

FINANCIAL STRENGTH

Credit Rating

2022 Target	Maintain investment grade credit rating.
Performance	CU Inc. maintained 'A (high)' long-term credit rating with stable outlook with DBRS Limited. CU Inc. maintained 'A-' long-term issuer credit rating and stable outlook with Standard & Poors. Fitch Ratings assigned a first-time issuer rating of 'A-' with stable outlook to CU Inc.

Access To Capital Markets

2022 Target	Continue to manage liquidity and access to capital in a prudent manner that facilitates strong access to capital at appropriate rates.
Performance	Despite heightened volatility and market turmoil globally, CU Inc. retained strong liquidity and market access in the year, with the market recognizing our financial strength and stability. On September 14, 2022, CU Inc. issued $210 million of 4.773 per cent 30-year debentures. Proceeds from this issuance were used for financing capital expenditures, and for other general corporate purposes. The issue was oversold and completed at an attractive spread of 163 basis points above Government of Canada 30-year bond rates.

OPERATIONAL EXCELLENCE

In 2022, **Safety** was included as a fifth core value alongside **Integrity**, **Collaboration**, **Caring**, and **Agility**. This value reiterates that safety is the first consideration in everything we do. We hold a shared belief that safety must direct all our day-to-day priorities and decisions, and we are accountable for understanding and following the health and safety requirements for any work we undertake.

Employees Lost-Time Incident Frequency (LTIF)

2022 Target	Compare favourably to safety benchmarks.
Performance	Our lost time incident frequency in 2022 was 0.09/200,000 hours worked. Our lost-time incident frequency compares favourably to many benchmarks including Alberta Occupational Health and Safety, US private industry, and industry best practice rates. While our results are favourable to benchmarks, we continue to strive to have best-in-class safety programs that prioritize the safety of our people.

Employees Total Recordable Incident Frequency (TRIF)

2022 Target	Compare favourably to safety benchmarks.
Performance	Our total recordable incident frequency in 2022 was 1.12 incidents/200,000 hours worked. Our total recordable incident frequency in 2022 compares favourably to many benchmarks including US private industry and industry best practice rates. While we have made great progress and continue to improve, we continue to strive to have best-in-class safety programs that prioritize the safety of our people.

Customer Satisfaction

2022 Target	Achieve exemplary service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years.
Performance	Electricity and Natural Gas Distribution achieved high service satisfaction levels, with approximately 95 per cent of customers agreeing that CU Inc. provides good service. This result compares favourably to industry averages and is consistent with previous years.

Organizational Transformation - Streamline and gain operational efficiencies

2022 Target	Continue to optimize enterprise resource planning, workforce and asset management, customer information systems and computerized maintenance management systems within CU Inc.
Performance	CU Inc. continued to progress the implementation of its Workforce and Asset Management program for Electricity and Natural Gas, aimed at advancing 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 and is expected to be fully complete in 2023. The Alberta Utilities Customer Information System (CIS) replacement program for both Natural Gas and Electricity is well underway. CIS holds our metering asset information, collects meter reads, calculates billing, and applies rates and production tariff bills for retailers. Both programs have experienced delays in in-service dates but are expected to be completed in 2023.

COMMUNITY INVOLVEMENT

Indigenous Relations

2022 Target	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.
Performance	Across ATCO, $81,000 was awarded to 68 students across Canada, including the territories, through the ATCO Indigenous Education Awards Program. Across ATCO, 4,528 employees participated in one of the many Indigenous training courses offered in 2022 through in-person and virtual classroom training platforms. We continue to innovate new, collaborative models for our partnerships with Indigenous Peoples. Highlights in 2022 include a share purchase agreement between Denendeh Investments Incorporated (DII) and ATCO Electric Ltd. to increase DII's ownership stake in Northland Utilities Enterprises Ltd. from 14 per cent to 50 per cent. In addition, AEY finalized two landmark Electricity Purchase Agreements for the upcoming Beaver Creek solar and the Burwash Landing wind facilities, and the Company was selected as the partner and commenced construction on the MCSP, a community generation solar project located in Smoky Lake County.

Employees Participating in Communities (EPIC)

2022 Target	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.
Performance	Employees and ATCO, the Company's ultimate parent, through the Company match program, pledged more than $3.6 million combined to support hundreds of community charities in 2022. The annual ATCO Employees Participating In Communities (EPIC) campaign has a cumulative fundraising total of nearly $54 million since its inception in 2006.

STRATEGIC PRIORITIES FOR 2023

Our 2022 performance highlights that our corporate strategy, which includes leadership in environmental, social and governance matters, continues to drive success. CU Inc.'s 2023 strategy will build on these achievements and look to create additional value through the execution of the priorities identified below while consistently delivering safe, reliable, resilient, and affordable energy for customers.

GROWTH	**Support energy transition with strategic regulated capital investments.** CU Inc. will invest in its core utility assets to ensure continued safe and reliable operations, and target investments that support system growth and the modernization needed to support the energy transition and the decarbonization needs of our customers.
INNOVATION	**Explore diversification opportunities that complement our current products, services and assets.** CU Inc. continues to evaluate opportunities to expand offerings and better serve customers. These efforts aim to specifically target new business areas and services that build upon the Company's core competencies and leverage existing assets.
	Execute initiatives and projects to drive meaningful progress towards our 2030 ESG targets. With the January 2022 announcement of ATCO's 2030 ESG goals, CU Inc. has committed to the achievement of its own supporting initiatives and has embedded these goals within its respective strategies. CU Inc. is pursuing opportunities and developing programs that create operational efficiency and effectiveness, while increasing Indigenous benefits and supporting leadership development and career opportunities for all employees. CU Inc. is also continuing to advance its energy transition strategies while simultaneously modernizing our existing electricity and natural gas systems to support the energy transition and ensure continued reliability.
FINANCIAL STRENGTH	**Cultivate the continued financial strength needed to create prosperity and opportunity for generations to come.** Our business strategies, funding of operations, and planned future growth are supported by maintaining our strong investment grade credit ratings and continued access to capital markets at competitive rates.
OPERATIONAL EXCELLENCE	**Compare favourably to safety benchmarks.** CU Inc. is committed to a culture of health and safety excellence and our positive performance will continue to be reflected in the favourable rankings against industry safety benchmarks, such as lost-time incidents and incident frequency.
	Achieve high service satisfaction levels for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years and we will leverage customer input and effectiveness measures in the prioritization of process improvements.
	Be an employer of choice while building and strengthening the capacity of our people. We continue to focus on employee engagement and programs that enhance diversity, equity and inclusion across our organization. Leadership development that lends to effective succession planning and opportunities for employee growth will continue to be a priority; supporting both employee satisfaction and retention.

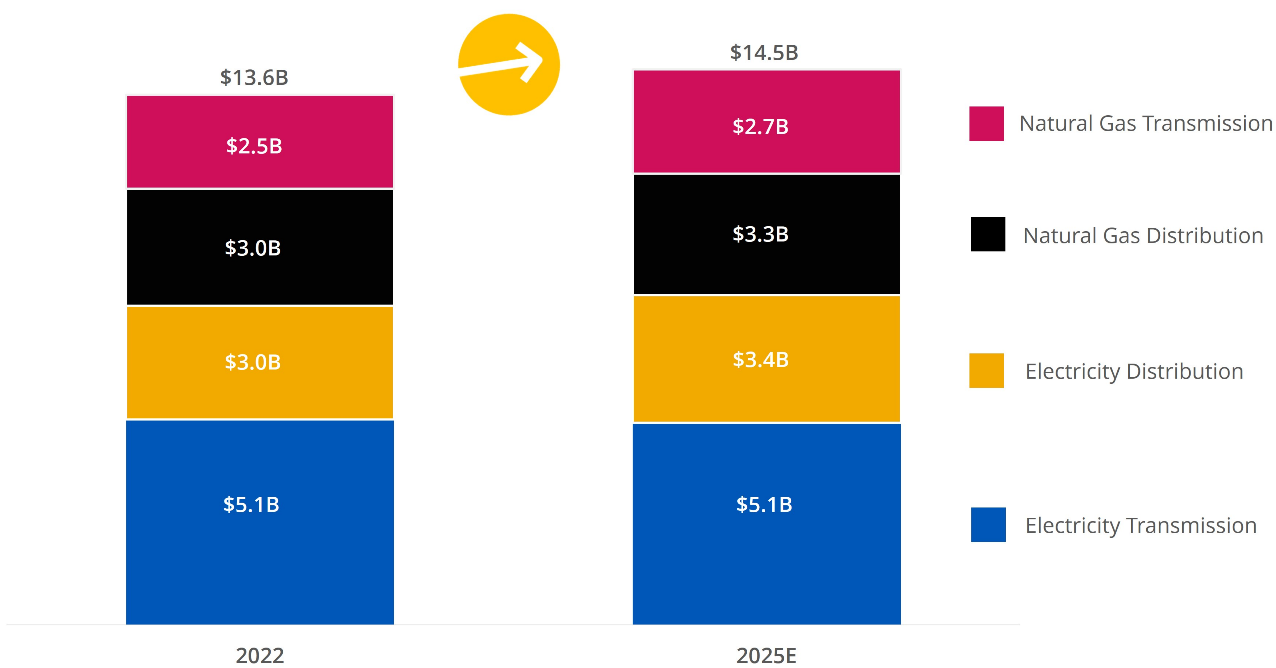
COMMUNITY INVOLVEMENT	**Committed to reconciliation with Indigenous communities and the maximizing of benefits.** We believe that our Indigenous partners should be provided with opportunities to share in the economic and social benefits of developments that happen within their communities. We look to increase net economic benefits to our Indigenous partners each year.
	Be a leader in supporting initiatives and charitable organizations within the communities we live and work. We will continue to administer the incredibly successful employee-led charitable campaign, ATCO EPIC. Within the communities that CU Inc. does business, we will continue to seek out and support programs that deliver meaningful benefits to community members.

CAPITAL EXPENDITURE PLANS

In the 2023 to 2025 period, CU Inc. expects to invest approximately $3.0 billion in regulated utility capital growth projects, of which $0.9 billion relates to Electricity Distribution, $0.7 billion to Electricity Transmission, $0.9 billion to Natural Gas Distribution, and $0.5 billion to Natural Gas Transmission.

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

MID-YEAR RATE BASE GROWTH (C$ Billions)



UTILITIES PERFORMANCE

REVENUES

Revenues of $837 million and $3,151 million in the fourth quarter and full year of 2022 were $11 million and $328 million higher than the same periods in 2021. Higher revenues, largely in Electricity Distribution and Natural Gas Distribution, are a result of rate relief provided to customers in 2021 in light of the COVID-19 global pandemic and subsequently the AUC decision to maximize the collection of 2021 deferred revenues in 2022. Higher revenues are also due to growth in rate base, and higher flow-through revenues in the Natural Gas Distribution business.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Electricity						
Electricity Distribution [(1)]	**33**	37	(4)	**161**	151	10
Electricity Transmission [(1)]	**37**	35	2	**165**	152	13
Total Electricity	**70**	72	(2)	**326**	303	23
Natural Gas						
Natural Gas Distribution [(1)]	**63**	72	(9)	**158**	142	16
Natural Gas Transmission [(1)]	**20**	20	—	**88**	81	7
Total Natural Gas	**83**	92	(9)	**246**	223	23
Corporate & Other and Intersegment Eliminations	**(2)**	—	(2)	**(4)**	(3)	(1)
Total Utilities [(2)]	**151**	164	(13)	**568**	523	45

(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 $151 million in the fourth quarter of 2022 were $13 million lower than the same period in 2021 mainly due to the timing of operating costs.

Utilities adjusted earnings of $568 million in the full year of 2022 were $45 million higher than the same period in 2021 mainly due to cost efficiencies, growth in rate base, and the impact of the Electricity Transmission 2018-2019 General Tariff Application (GTA) Compliance Filing and the 2020-2022 GTA Compliance Filing decisions received from the AUC in the second and third quarters of 2021.

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 $33 million in the fourth quarter of 2022 were $4 million lower than the same period in 2021 mainly due to the timing of operating costs.

Electricity Distribution adjusted earnings of $161 million in the full year of 2022 were $10 million higher than the same period in 2021 mainly due to cost efficiencies.

Electricity Transmission

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

Electricity Transmission adjusted earnings of $37 million and $165 million in the fourth quarter and full year of 2022 were $2 million and $13 million higher than the same periods in 2021. Adjusted earnings in 2021 were lower as a result of the Electricity Transmission 2018-2019 GTA Compliance Filing and the 2020-2022 GTA Compliance Filing decisions received from the AUC in the second and third quarters of 2021. Combined, these decisions included a $12 million reduction of earnings in 2021 related to prior periods.

Natural Gas Distribution

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

Natural Gas Distribution adjusted earnings of $63 million in the fourth quarter of 2022 were $9 million lower than the same period in 2021 mainly due to timing of operating costs.

Natural Gas Distribution adjusted earnings of $158 million in the full year of 2022 were $16 million higher than the same period in 2021 mainly due to cost efficiencies.

Natural Gas Transmission

Natural Gas Transmission receives natural gas on its pipeline system from various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province of Alberta or to other pipeline systems.

Natural Gas Transmission adjusted earnings of $20 million in the fourth quarter of 2022 were comparable to the same period in 2021.

Natural Gas Transmission adjusted earnings of $88 million in the full year of 2022 were $7 million higher than the same period in 2021 mainly due to growth in rate base, including the acquisition of the Pioneer Pipeline which occurred in June 2021.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the fourth quarter and full year of 2022 were $2 million and $1 million lower than the same periods in 2021 mainly due to the timing of certain expenses.

RECENT DEVELOPMENTS

White River First Nation Saa Sè Energy Project

ATCO Electric Yukon, a subsidiary of CU Inc., and Copper Niisüü Limited Partnership, have finalized a landmark Electricity Purchase Agreement that will help the White River First Nation reduce their reliance on diesel power, achieve greater energy autonomy, and generate economic benefits for the next 30 years.

Under the agreement, CNLP will build, own and operate the Beaver Creek solar facility, designed to be the largest penetration solar project in the Yukon Territory – a measure of how much power generated by current means is being replaced by solar electricity. CU Inc. will provide technical expertise throughout the duration of the project and will manage the installation of equipment that helps connect solar equipment to CU Inc.'s existing systems. Once construction is completed, CNLP will serve as the Independent Power Producer, owning and operating the solar facility. CU Inc. will purchase the solar electricity generated, connect it to the grid and redistribute it back to the community. The facility is expected to be fully operational by 2024.

The Government of the Northwest Territories (GNWT) Electric Vehicle (EV) Investment

In August 2022, GNWT announced it is providing Northland Utilities Enterprises Ltd. (NUE), a 50/50 joint-venture partnership between a subsidiary of the Company and Denendeh Investments Incorporated (DII), with up to $300,000 to support the installation of two public EV fast-charger stations in Yellowknife.

The charger stations are part of the planned EV charging corridor between Yellowknife and the Alberta border committed to by the GNWT as part of their 2030 Energy Strategy. It will also support the purchasing of EVs for Northern Canadian residents by increasing public access to the charging infrastructure. This partnership highlights our Company's continued focus on collaboration to enable and accelerate the clean energy transition.

Northland Utilities Enterprises Ltd. Ownership Structure

On March 31, 2022, the Company and Denendeh Investments Incorporated entered into a share purchase agreement to increase DII's ownership interest in NUE from 14 per cent to 50 per cent. NUE is an electric utility company operating in the Northwest Territories and a subsidiary of ATCO Electric Ltd. The change in ownership interest was accomplished through DII's purchase of 36 per cent of the outstanding shares of NUE for a purchase price, net of cash disposed, of $8 million. The transaction results in each party having a 50 per cent ownership interest in NUE and highlights our continued commitment to foster Indigenous community ownership and self-sustaining economic development.

REGULATORY INFORMATION

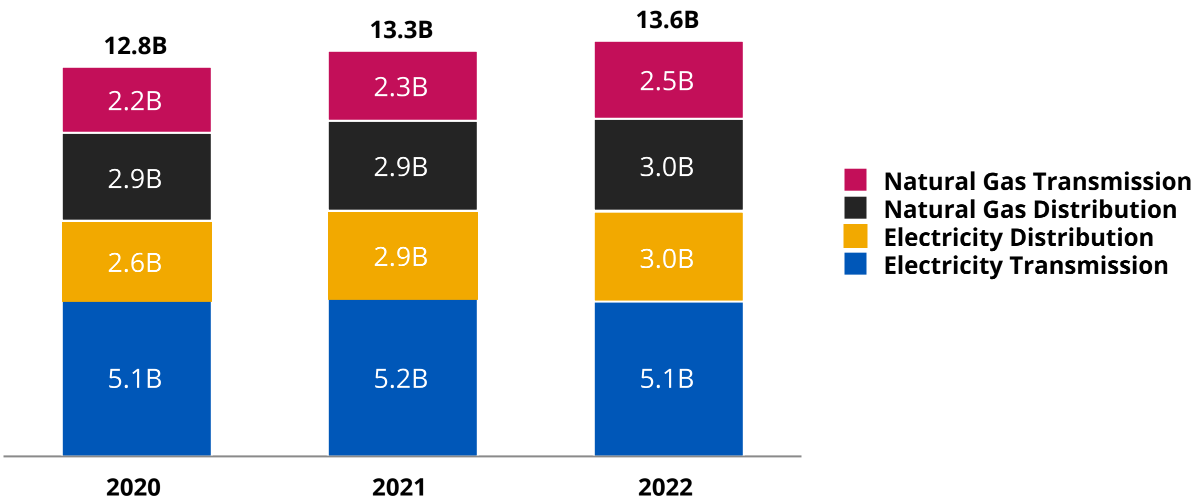
Regulated Business Models

The business operations of Electricity Distribution, Electricity Transmission, Natural Gas Distribution and Natural Gas Transmission are regulated mainly by the Alberta Utilities Commission. 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)



Performance Based Regulation (PBR)

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 2022, the Natural Gas Distribution and Electricity Distribution businesses concluded their second PBR term resulting in earnings achieved through cost efficiencies implemented in 2022 and prior periods. These efficiencies will be passed on to customers upon rebasing. Following a one-year cost-of-service rebasing in 2023, these businesses will move to a third generation of performance-based regulation (PBR3). More information on PBR3 is outlined below in the Regulatory Updates section.

	PBR Second Generation
Timeframe	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indices (AWE and CPI) adjusted annually
Productivity Adjuster (X Factor)	0.30%
O&M	Based on the lowest annual actual O&M level during 2013-2016, adjusted for inflation, growth and productivity to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Costs	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital costs for the period 2013-2016. The K Bar is calculated annually and adjusted for the actual weighted average cost of capital (WACC) • Significant capital costs that are extraordinary, not previously incurred and required by a third party, are recovered through a "Type I" K Factor
Return On Equity (ROE) Used for Going-in Rates	• 8.5% • + 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019
Efficiency Carry-over Mechanism (ECM)	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
Reopener	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
ROE Used for Reopener Calculation	2018: 8.5% excluding impact of ECM 2019: 8.5% excluding impact of ECM 2020 - 2022: 8.5%

Common Matters

Generic Cost of Capital Proceeding (GCOC)

On March 31, 2022, the AUC approved the extension of the current ROE of 8.5 per cent and equity thickness ratio of 37 per cent on a final basis for the 2023 period. On June 29, 2022, the AUC initiated a process schedule to determine the cost-of-capital parameters and explore a formula-based approach to determine the ROE for 2024 and future test years. As part of this proceeding, the AUC has also highlighted the need to establish the deemed equity ratios for the 2024 test period and in future years if a formula is implemented. A decision is expected in the third quarter of 2023.

2023 Cost of Service (COS) for Distribution Utilities

On July 28, 2022 and September 1, 2022, the AUC issued decisions on Electricity Distribution's and Natural Gas Distribution's 2023 COS applications which resulted in the majority of the requested revenue requirement being approved. The AUC accepted the forecasting methodology and confirmed that it reflects achieved efficiencies, which are being passed onto customers. Electricity and Natural Gas Distribution received AUC approval in December 2022, approving 2023 distribution rates on an interim basis effective January 1, 2023.

Third Generation Performance Based Regulation

On May 26, 2022, the AUC initiated a proceeding to establish parameters for a third generation of performance-based regulation. Following a one-year cost of service rebasing in 2023, this proceeding will set rates for the Distribution utilities for the subsequent PBR term which commences in 2024. A decision on third generation parameters is expected in the fourth quarter of 2023.

Bill 18 – Utility Commodity Rebate Act

On April 25, 2022, the provincial government passed Bill 18: *Utility Commodity Rebate Act* which includes legislation to allow the government to provide upcoming electricity and gas rebates to Albertans. Bill 18 enables the Government of Alberta (GOA) to provide monthly electricity rebates from July 2022 to April 2023 for a total rebate of $500, to almost all homes and businesses, as well as a natural gas rebate (administrated through retailers) if regulated natural gas rates exceed $6.50 per gigajoule over winter (October 1, 2022 to March 31, 2023). Since the rebate is government funded there is no financial impact to CU Inc.

Electricity Transmission

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

On November 29, 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. A proceeding was commenced to determine whether ATCO Electric Transmission failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to a sole source contract for the Jasper interconnection project and the actions leading up to and including the filing of the 2018-2020 Deferral Account Application.

The AUC enforcement branch and ATCO Electric Transmission commenced settlement discussions in January 2022. On March 18, 2022, the AUC enforcement branch and ATCO Electric Transmission concluded discussions and notified the AUC that the parties had reached a settlement on all matters. On April 14, 2022, the AUC Enforcement branch and ATCO Electric Transmission filed the settlement with the AUC, which reflected an agreed administrative penalty of $31 million, a commitment to amend the ongoing Deferral Account Application to ensure the estimated $11 million of additional rate base remains excluded from customer rates, and the implementation of revised practices and policies. 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.

ATCO Electric Transmission 2018-2021 Deferral Account

The proceeding was re-opened on June 29, 2022 to address the costs associated with the Jasper interconnection project and include the 2021 deferral balances. ATCO Electric Transmission filed a comprehensive update to all information originally filed in support of the Jasper Interconnection Project and a Decision is expected in the second quarter of 2023.

ATCO Electric Transmission 2023-2025 GTA Application

On May 19, 2022, ATCO Electric Transmission filed a GTA requesting approval of revenue requirements related to operational and maintenance costs as well as capital expenditures needed over the 2023-2025 period. The application also requested new deferral accounts and changes to a number of existing deferral accounts. A comprehensive negotiated settlement was reached with all the participating interveners, and a negotiated settlement application was filed with the AUC in January 2023. A decision from the AUC is expected in the second quarter of 2023.

Natural Gas Transmission

Pioneer Pipeline Acquisition

In 2020, Natural Gas Transmission entered into an agreement to acquire the 131-km Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation. Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission transferred to Nova Gas Transmission Ltd. (NGTL) the 30-km segment of pipeline that is located in the NGTL footprint.

The transaction to acquire the Pioneer Pipeline closed in 2021. The transfer to NGTL received approval from the Canada Energy Regulator on December 22, 2021, and on February 25, 2022, Natural Gas Transmission completed the transfer to NGTL of the 30-km segment of pipeline located in the NGTL footprint for $63 million.

SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

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

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

SUSTAINABILITY REPORTING AND ESG TARGETS

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

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

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

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

The 2022 Sustainability Report, ESG Datasheet, Corporate Governance, materiality assessment, and additional details and other disclosures will be available in May 2023 on our website at www.canadianutilities.com.

CLIMATE CHANGE AND ENERGY TRANSITION

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

POLICY/REGULATORY UPDATE

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

Canadian Net-Zero Emissions Accountability Act

As required under its *Canadian Net-Zero Emissions Accountability Act* enacted in March 2022, the Government of Canada released its 2030 Emissions Reduction Plan: Canada's Next Steps for Clean Air and a Strong Economy. The plan outlines a sector-by-sector approach for Canada to reduce emissions by 40 per cent below 2005 levels by 2030. The plan includes specific sector reduction intentions such as:

- **Clean Electricity Regulation** – intention to have a net-zero electricity grid by 2035.
- **Green Building Strategy** – reducing direct residential, commercial and institutional building emissions by 37 per cent from 2005 levels by 2030.
- **Methane Reductions** – reducing oil and gas methane emissions by at least 75 per cent below 2012 levels by 2030.
- **Oil and Gas Cap** – reducing oil and gas sector emissions by 31per cent from 2005 levels by 2030.
- **Zero Emissions Vehicle Mandate** – setting Zero Emission Vehicle sales targets for manufacturers and importers of new passenger cars, SUVs, and pickup trucks requiring that at least 20 per cent of new vehicles sold in Canada to be zero emission by 2026, at least 60 per cent by 2030, and 100 per cent by 2035.

Consultations have been ongoing on most of the above mentioned reduction intentions, with plans to introduce regulations for some of the initiatives in 2023.

Government of Canada Clean Fuel Regulations (CFR)

The CFR were published in the Canada Gazette Part II on July 6, 2022, with reduction requirements coming into force on July 1, 2023. The CFR will require gasoline and diesel suppliers to reduce carbon intensity by approximately 13 per cent by 2030 and will create opportunities to generate credits through clean fuels production and fuel switching.

Government of Canada 2022 Fall Economic Statement (FES)

In November 2022, the FES was announced, introducing a series of measures designed to grow the Canadian economy — both in the short and medium term. Key energy policies include:

- An Investment Tax Credit for Clean Technologies – a refundable tax credit equal to 30 per cent of the capital cost of investments in clean technologies.
- An Investment Tax Credit for Clean Hydrogen – an investment tax credit to support investments in clean hydrogen production.
- Canada Growth Fund – a fund that will help to attract private capital to invest in building a thriving, sustainable Canadian economy with thousands of new, good-paying jobs.

In August 2022, the US passed an energy bill called the *Inflation Reduction Act (IRA)*. It offers extensive financial supports to firms that locate their production in the United States—from electric vehicle battery production, to hydrogen, to biofuels, and beyond. The Canadian government has stated its commitment to respond to the IRA and ensure that Canada remains a first-choice destination for businesses to invest and create jobs. It has launched consultations to seek input on how best to design and implement the initiatives mentioned above.

Alberta Utilities Commission Hydrogen Inquiry Report

Following the release of its Hydrogen Roadmap, the Government of Alberta directed the AUC to inquire into and report to the Minister of Energy on matters relating to hydrogen blending into natural gas distribution systems. On September 6, 2022, the AUC publicly released the Hydrogen Inquiry Report, which provides further information on hydrogen blending into natural gas distribution systems. It discusses the role of regulated natural gas distribution systems and unregulated competitive markets for up to 20 per cent blending by volume, impacts of blending hydrogen into low-pressure natural gas distribution systems, the safe and reliable delivery of blended hydrogen, and regulatory ambiguity. While the AUC report represents a positive step forward, it is a consultative inquiry and changes to legislation must be passed through legislature.

Government of Alberta *Bill 22 Electricity Statutes (Modernizing Alberta's Electricity Grid) Amendment Act, 2022*

Bill 22, which received royal assent on May 31, 2022, enables the integration of energy storage (batteries) into Alberta's interconnected electric system and will include the development of new transmission regulations.

Carbon Pricing/Output-Based Pricing Systems

In January 2022, the carbon price in Canada increased from $40 to $50 per tonne. The Government of Canada's plan on climate change proposes to increase the carbon price by $15 per tonne each year starting in 2023, rising to $170 per tonne by 2030. As a result, beginning April 2023, the minimum national carbon price in Canada is expected to be $65 per tonne.

In December 2022, the Government of Alberta introduced amendments to Technology Innovation and Emissions Reduction (TIER) Regulation to help bring the regulation in line with the minimum federal standards, ensuring the continuation of the provincial emissions trading and carbon pricing system in Alberta. These changes come after a stakeholder consultation process which was introduced in June 2022. A significant change includes the creation of sequestration credits and the recognition of captured tonnes under the federal Clean Fuel Regulation. Other changes include alignment with the federal carbon pricing, increases to benchmark tightening, reduced periods to use created credits, increases to credit limit use and the inclusion of flaring for aggregated oil and gas facilities.

CLIMATE CHANGE RESILIENCY

We carefully manage climate-related risks, including preparing for, and responding to, extreme weather events through activities such as proactive route and site selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes and continues to evaluate ways to create greater system reliability and resiliency. When planning for capital investment or acquiring assets we consider site specific climate and weather factors, such as flood plain mapping and extreme weather history.

In our Electricity Transmission and Distribution operations, grid resiliency initiatives focus on prevention, protection, and reaction. Prevention includes minimizing operational risks and ensuring system adequacy through system planning and coordination. Protection is focused on improving grid resiliency through activities such as retrofitting and vegetation management to reduce incidents that result in outages. Wildfire Management Plans include requirements to conduct annual patrols of all transmission power lines in forest protection areas. Finally, we look to restore services in the shortest possible timeframe through grid modernization, adequate contingency planning and dispatch.

In our Natural Gas Transmission and Distribution businesses, the majority of the pipeline network is underground, making it less susceptible to extreme weather events. We work with regulators to increase resiliency where appropriate through asset improvement projects. We have also mapped and continue to regularly inspect pipeline water crossings.

We have streamlined our Crisis Response and Emergency Preparedness systems, and we continuously improve our ability to rapidly mobilize and effectively respond to crises globally. We incorporate learnings from responding to extreme weather events which enables us to continue to strengthen our emergency response capabilities.

CLIMATE CHANGE CHALLENGES AND OPPORTUNITIES

While climate-related challenges and opportunities are integrated throughout our strategy and risk management processes, we understand that specifically disclosing climate-related information aligned with the TCFD recommendations is also useful for the investment community.

In addition to the material risks described in the Business Risks and Risk Management section of this MD&A, the following table provides further information on how we address specific climate-related challenges and opportunities.

<table>
<tr><th colspan="2">Category/Driver</th><th>Challenges</th><th>Opportunities</th><th>Mitigation Options/ Measures</th></tr>
<tr><td rowspan="4">Transitional</td><td>Policy/Regulatory</td><td>Operations in several jurisdictions subject to emissions limiting regulations

Aggressive shifts in policy which do not allow for transition in an effective, affordable manner</td><td>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</td><td>Active participation in policy development, industry groups, and regulatory discussions

Business diversification

Hydrogen research and projects</td></tr>
<tr><td>Market</td><td>Changes in carbon policy, costs of operations, and commodity prices

Changing customer behaviour</td><td>Increasing demand for lower-emitting technologies

Hydrogen market development

Distributed energy solutions</td><td>Participation in carbon markets

Business diversification</td></tr>
<tr><td>Technology</td><td>Replacement of current products/services with lower-emitting options

Prosumer movement may affect energy load profiles in the future</td><td>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</td><td>Providing a suite of lower-emitting technology solutions so our customers can pick the right solutions for their unique situation</td></tr>
<tr><td>Reputational</td><td>Public perception of carbon risk</td><td>Increase in demand for trusted long-term partners to deliver lower-emitting solutions</td><td>Transparent reporting

Authentic engagement and collaboration</td></tr>
<tr><td>Physical</td><td>Physical</td><td>Extreme weather events

Long-term changes in temperature and weather patterns</td><td>Climate change mitigation and adaptation

Rapidly deployable structures and logistics services</td><td>Climate change resiliency efforts

Emergency Response & Preparedness plans and training</td></tr>
</table>

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 2022 and 2021 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)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Operating costs	**416**	402	14	**1,436**	1,395	41
Depreciation and amortization	**150**	148	2	**559**	547	12
Net finance costs	**91**	100	(9)	**359**	372	(13)
Income tax expense	**44**	44	—	**193**	122	71

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $14 million in the fourth quarter of 2022 compared to the same period in 2021. Increased costs were mainly due to increased expenses related to maintenance projects in the Utilities, and to higher flow-through costs in the Natural Gas Distribution business.

Operating costs increased in the full year of 2022 by $41 million compared to the same period in 2021 mainly due to higher flow-through costs in the Natural Gas Distribution business, costs related to the AUC enforcement proceeding, increased expenses related to maintenance projects in the Utilities, and costs associated with the Workplace COVID-19 Vaccination Standard. Higher operating costs compared to same period in 2021 were partially offset by costs related to the early termination of the Master Services Agreement (MSA) with Wipro Ltd. (Wipro) for managed information technology services in 2021, and the 2022 gain on sale due to the change in ownership interest in NUE.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $2 million and $12 million in the fourth quarter and full year of 2022 compared to the same periods in 2021 mainly due to the acquisition of the Pioneer Pipeline in the Natural Gas Transmission business in June 2021, higher depreciation in Electricity Distribution as a result of a project cancellation, and ongoing capital investment in the Alberta Utilities.

NET FINANCE COSTS

Net finance costs decreased by $9 million and $13 million in the fourth quarter and full year of 2022 compared to the same periods in 2021 mainly due to lower interest expense capitalized to capital projects and repayment of higher interest rate debentures that were replaced with lower interest rate debentures.

INCOME TAX EXPENSE

Income taxes in the fourth quarter of 2022 were comparable to the same period in 2021.

Income taxes were higher by $71 million in the full year of 2022 compared to the same period in 2021 mainly due to increased IFRS earnings before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

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

CREDIT RATINGS

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

On March 17, 2022, Fitch Ratings assigned a first-time issuer rating of 'A-' with a stable outlook to CU Inc.

On August 2, 2022, DBRS Limited affirmed its 'A (high)' long-term corporate credit rating and stable outlook on CU Inc.

On August 4, 2022, S&P Global Ratings affirmed its 'A-' long-term issuer credit rating and stable outlook on CU Inc.

LINES OF CREDIT

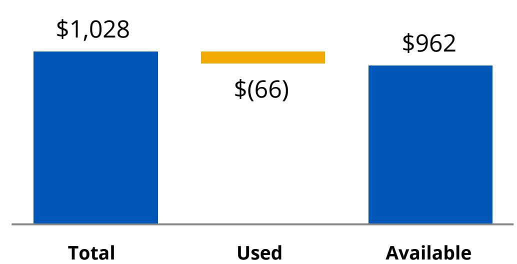
At December 31, 2022, CU Inc. and its subsidiaries had the following lines of credit.

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

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

The other $900 million in 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.

Lines of Credit ($ millions)



CONSOLIDATED CASH FLOW

At December 31, 2022, the Company's cash position was $(12) million, a decrease of $64 million compared to December 31, 2021. Major movements are outlined in the following table:

	Year Ended December 31		
($ millions)	**2022**	**2021**	**Change**
Cash flows from operating activities	**1,818**	1,480	338
Net issue of long-term debt	**85**	301	(216)
(Repayment) issue of short-term debt	**(206)**	206	(412)
Cash used for capital expenditures	**(1,038)**	(1,006)	(32)
Dividends paid to Class A and Class B share owner	**(494)**	(371)	(123)
Interest paid	**(364)**	(364)	—
Redemption of equity preferred shares	**—**	(79)	79
Other	**135**	(93)	228
Increase (decrease) in cash position	**(64)**	74	(138)

Cash Flows from Operating Activities

Cash flows from operating activities of $397 million in the fourth quarter of 2022 were $37 million lower than the same period in 2021 mainly due to timing of certain revenues and expenses and decreased customer contributions.

Cash flows from operating activities of $1,818 million in the full year of 2022 were $338 million higher than the same period in 2021. The increase was mainly due to higher cash flows from the recovery of the 2021 deferral of customer rate increases in Electricity Distribution and Natural Gas Distribution.

Cash Used for Capital Expenditures

Cash used for capital expenditures was $355 million in the fourth quarter of 2022, $132 million higher compared to the same period in 2021 mainly due to ongoing capital investment.

Cash used for capital expenditures was $1,038 million in the full year of 2022, $32 million higher compared to the same period in 2021 mainly due to ongoing capital investment, partially offset by the 2021 acquisition of the Pioneer Pipeline and the completion of construction of the Calgary Northwest Connector in 2021 in the Natural Gas Transmission business.

Capital expenditures for the fourth quarter and full year of 2022 and 2021 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Electricity Distribution	**92**	68	24	**282**	230	52
Electricity Transmission	**107**	25	82	**284**	120	164
Natural Gas Distribution	**105**	91	14	**329**	294	35
Natural Gas Transmission	**51**	39	12	**143**	362	(219)
Total (1) (2)	**355**	223	132	**1,038**	1,006	32

(1) Includes additions to property, plant and equipment, intangibles, and $3 million and $12 million (2021 - $(2) million and $6 million) of capitalized interest during construction for the fourth quarter and full year of 2022. The $(2) million of capitalized interest during construction recognized in the fourth quarter of 2021 relates to a project cancellation.

(2) Includes $17 million and $153 million for the fourth quarter and full year of 2022 (2021 - $31 million and $148 million) of capital expenditures that were funded with the assistance of customer contributions.

Base Shelf Prospectus - Debentures

On September 16, 2020, CU Inc. filed a base shelf prospectus that permitted it to issue up to an aggregate of $1.2 billion of debentures over the 25-month life. The prospectus expired on October 17, 2022 and the aggregate issuances of the debentures were $820 million.

Debenture Issuance

On September 14, 2022, CU Inc. issued $210 million of 4.773 per cent 30-year debentures. Proceeds from the issue will be used to finance capital expenditures and for other general corporate purposes.

Debenture Repayment

On April 1, 2022, CU Inc. repaid $125 million of 9.92 per cent debentures.

SHARE CAPITAL

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

At February 28, 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 March 31, 2021 through December 31, 2022.

($ millions)	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022**
Revenues	917	738	659	**837**
Earnings for the period	222	153	93	**136**
Adjusted earnings (loss)				
Electricity	90	85	81	**70**
Natural Gas	122	35	6	**83**
Corporate & Other and Intersegment Eliminations	(1)	—	(1)	**(2)**
Total adjusted earnings [(1)]	211	120	86	**151**

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

(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

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

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

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

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

In the first quarter of 2022, adjusted earnings in the Utilities were higher than the same period in 2021 mainly due to timing of operating costs, cost efficiencies, and growth in rate base.

In the second quarter of 2022, adjusted earnings in the Utilities were higher compared to the same period in 2021 mainly due to the impact of the Electricity Transmission 2018-2019 GTA Compliance Filing decision received in the second quarter of 2021, growth in rate base, the timing of operating costs, and cost efficiencies.

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

In the fourth quarter of 2022, adjusted earnings in the Utilities were lower than the same period in 2021 mainly due to the timing of operating costs.

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, and other items that are not in the normal course of business or a result of day-to-day operations recorded at various times over the past eight quarters. These items are excluded from adjusted earnings and are highlighted below:

- Early Termination of the Master Services Agreement for Managed IT Services
    - In 2020, the Company's parent, Canadian Utilities Limited, signed a MSA with IBM Canada Ltd. (IBM) (subsequently novated to Kyndryl Canada Ltd.) to provide managed IT services. These services were previously provided by Wipro Ltd. under ten-year MSAs expiring in December 2024. The Company recognized onerous contract provisions relating to the Wipro MSAs of $52 million (after-tax) in the fourth quarter of 2020.
    - The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and was complete by December 31, 2021. In 2021, the Company recognized transition costs of $32 million (after-tax).
- AUC Enforcement Proceeding
    - On April 14, 2022, the AUC Enforcement branch and ATCO Electric Transmission filed a settlement with the AUC regarding a sole source contract for the Jasper interconnection project. On June 29, 2022, the AUC issued its decision approving the settlement in its entirety. In the fourth quarter of 2021 and first quarter of 2022, the Company recognized costs of $14 million and $27 million (after-tax), respectively, related to the proceeding.
- Workplace COVID-19 Vaccination Standard
    - To safeguard the health and safety of employees, business partners, customers and communities, the Company required its employees, subject to certain exemptions, to be vaccinated against COVID-19 effective January 1, 2022. Employees who did not demonstrate they were vaccinated or did not have an approved exemption were provided severance. In 2022, the Company incurred $8 million (after-tax) in severance and related costs associated with the Workplace COVID-19 vaccination standard.

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

BUSINESS RISKS AND RISK MANAGEMENT

The Board of Directors is responsible for understanding the principal risks of the businesses in which the Company is engaged. The Board also must achieve a prudent balance between risks incurred and the potential return to the share owner. It must confirm controls are in place that effectively monitor and manage those risks for the Company's long-term viability.

The Board has an Audit 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 Committee. Non-financial risks that may have an impact on the safety of our employees, customers or the general public and reputation risks are also evaluated. The following table outlines our current significant risks and associated mitigations.

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

Description & Context

The Company is subject to the normal risks associated with major capital projects, including cancellations, delays and cost increases. As it relates to the Company's energy transition investments, the Company faces additional risks including policy certainty, pace of energy transition, commodity and environmental attribute price risk and climate risk.

Risk Management Approach

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

Planned capital investments for the Utilities are based on the following significant assumptions: projects identified by the AESO will proceed as currently scheduled; the remaining planned capital investments are required to maintain safe and reliable service and meet planned growth in the Utilities' service areas; regulatory approval for capital projects can be obtained in a timely manner; and access to capital market financings can be maintained.

The Company believes these assumptions are reasonable.

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

Description & Context - Policy Risks

CU Inc. is subject to emission regulations, including carbon pricing, output-based performance standards, and other emission management policies. The Government of Alberta recently completed its review of the Technology Innovation and Emissions Reduction (TIER) Regulations and in December 2022, released the TIER Regulation Amendments which met equivalency with the federal Output-Based Pricing System.

Risk Management Approach - Policy Risks

The Company's exposure is mitigated because GHG emission charges are generally recovered in rates. In addition, future requirements, such as upgrading equipment to further reduce methane emissions in the natural gas utilities, are expected to be included in rate base on a go-forward basis.

Description & Context - Physical Risks

Physical risks associated with climate change may include an increase in extreme weather events such as heavy rainfall, floods, wildfires, extreme winds and ice storms, or changing weather patterns that cause ongoing impacts to seasonal temperatures. Electricity transmission, distribution and pipeline assets above ground or on water crossings are exposed to extreme weather events.

Risk Management Approach - Physical Risks

The Company continues to carefully manage physical risks, including preparing for, and responding to, extreme weather events through activities such as proactive route and site selection, asset hardening, regular maintenance, and insurance. The Company follows regulated engineering codes, continues to evaluate ways to create greater system reliability and resiliency and, where appropriate, submits regulatory applications for capital expenditures aimed at creating greater system reliability and resiliency.

Prevention activities include Wildfire Management Plans and vegetation management at Electricity Transmission and Distribution operations. The majority of the Company's natural gas pipeline network is in the ground, making it less susceptible to extreme weather events.

The Company maintains in-depth emergency response measures for extreme weather events. When planning for capital investment or acquiring assets, we consider site specific climate and weather factors, such as flood plain mapping and extreme weather history.

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

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

Description & Context

For cash and cash equivalents and accounts receivable and contract assets, credit risk represents the carrying amount on the consolidated balance sheet. Derivative and finance lease receivable credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments.

Risk Management Approach

Cash and cash equivalents credit risk is reduced by investing in instruments issued by credit-worthy financial institutions and in federal government issued short-term instruments.

The Company minimizes other credit risks by dealing with credit-worthy counterparties, following established credit-approval policies, and requiring credit security, such as letters of credit.

The Utilities are able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from the retailers beyond the retailer security mandated by provincial regulations.

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

Description & Context

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

Risk Management Approach

The Company has an enterprise wide cybersecurity program covering all technology assets. The cybersecurity program includes employee awareness, layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized Security Operations Centre. The Company's cybersecurity management is consolidated under a common, centralized organization structure to increase effectiveness and compliance across the entire enterprise.

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

Description & Context

The Company's financing risk relates to the price volatility and availability of external financing to fund the capital expenditure program and refinance existing debt maturities. Financing risk is directly influenced by market factors. As financial market conditions change, these risk factors can affect the availability of capital and also the relevant financing costs.

Risk Management Approach

To address this risk, the Company manages its capital structure to maintain strong investment grade credit ratings which allow continued ease of access to the capital markets. The Company also considers it prudent to maintain sufficient liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. This liquidity is generated by cash flows from operations and supported by appropriate levels of cash and available committed credit facilities.

Business Risk: Inflation Risk		
Businesses Impacted:	**Associated Strategies:**	
• All businesses	• Financial Strength	

Description & Context

Inflation has the potential to impact the economies and business environments that the Company operates in. Increased inflation and any economic conditions resulting from governmental monetary policy intended to reduce inflation may negatively impact demand for products and services and/or adversely affect profitability.

Risk Management Approach

The Company monitors the impacts of inflation on the procurement of goods and services and seeks to minimize its effects in future periods through pricing strategies, productivity improvements, and cost reductions. The majority of the impact on costs resulting from inflation is mitigated through the regulatory construct, long-term contractual terms, and pricing of short-term contractual sales. The Company maintains strong investment grade ratings, which helps mitigate the risk of higher interest costs, and the vast majority of the Company's outstanding debt carries fixed rate interest, which helps to alleviate the impact of increasing short-term interest rates.

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

Description & Context

An outbreak of infectious disease, a pandemic or a similar public health threat, such as the COVID-19 pandemic, or a fear of any of the foregoing, could adversely impact the Company by causing operating, supply chain and project development delays and disruptions, inflation risk, labour shortages and shutdowns as a result of government regulation and prevention measures. These impacts would increase strain on employees and compromise levels of customer service, either of which could have a negative impact on the Company's operations.

Any deterioration in general economic and market conditions resulting from a public health threat could negatively affect demand for electricity and natural gas, revenue, operating costs, timing and extent of capital expenditures, results of financing efforts, or credit risk and counterparty risk; any of which could have a negative impact on the Company's business.

Risk Management Approach

CU Inc.'s investments are focused on regulated utilities, creating a resilient investment portfolio. CU Inc. has a comprehensive Pandemic Plan that is activated when a pandemic is declared. The plan includes travel restrictions, limited access to facilities, a direction to work from home whenever possible, physical distancing measures and other protocols (including the use of personal protective equipment while at a work premise). Additionally, the Company follows recommendations by local and national public health authorities to adjust operational requirements as needed to ensure a coordinated approach across CU Inc.

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

Description and Context:

A low level of retention in a workforce, especially within critical roles, could result in a shortage of people that could hamper Company operations and may negatively impact meeting business objectives.

Risk Management Approach

CU Inc.'s investment in our people provides an attractive environment that fosters retention. CU Inc. continuously reviews and enhances its people resourcing and management strategy. This includes enhancing ATCO's, CU Inc.'s ultimate parent company, branding and highlighting our Company values, building strong partnerships with educational institutions to attract new graduates and co-operative education students, aligning total rewards of compensation, benefits, pension and employee share purchase programs with market, and delivering orientation and onboarding for cultural and strategy awareness. We promote and support the development of our people, complete succession and development planning annually with a significant focus on critical roles and skills, and provide leadership and individual development programs that are available for all leaders and employees. The annual performance management program facilitates discussions on annual goals, development plans and career planning.

To promote a culture of inclusiveness, actions taken include supporting a flexible work environment, and through a focus on Diversity, Equity and Inclusion (DE&I) with our DE&I Council and many committees along with our Well-being@ATCO programs, we continue to build an environment where people feel safe (physically and psychologically), have equal opportunity, and feel included. To understand more deeply the risks to retention, exit interviews are conducted and an annual employee engagement survey is conducted, of which 84 per cent of employees participated in 2022. Results are reviewed to inform areas of risk and engagement action plans are developed by leaders to address risks. As a result, CU Inc.'s retention rates continue to be at or higher than global benchmarks.

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's and Natural Gas Transmission's Urban Pipeline Replacement and integrity programs, and Natural Gas Distribution's Mains Replacement program. The Company also carries property and liability insurance. The Company actively engages in damage prevention initiatives including proactive direct engagement with the building and excavation communities. The Company also promotes ground disturbance and excavation safety to homeowners and the excavation community.

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

Description & Context

Operations are exposed to a risk of change in the business environment due to political change. Legislative or policy changes may impact the financial performance of operations. This could negatively impact earnings, return on equity and assets, and credit metrics.

Risk Management Approach

Participation in policy consultations with governments and engagement of stakeholder groups ensure ongoing communication and that the impacts and costs of proposed policy changes are identified and understood. Where appropriate, the Company works with its peers and industry associations to develop common positions and strategies.

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

Description & Context

CU Inc. is subject to the risks associated with the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base. The Company is also subject to the potential risk of the regulator disallowing costs incurred. Electricity Distribution and Natural Gas Distribution operate under 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 ensure that the best available technology is deployed to support current state operational efficiency and reliability. The business seeks opportunities to minimize costs by monitoring trends occurring in other jurisdictions that may be ahead of the technological curve.

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

Description & Context

Liquidity risk is the risk that the Company will not be able to meet its financial obligations.

Risk Management Approach

Cash flow from operations provides a substantial portion of the Company's cash requirements. Additional cash requirements are met with the use of existing cash balances and externally through bank borrowings and the issuance of long-term debt and preferred shares. Commercial paper borrowings and short-term bank loans under available credit lines are used to provide flexibility in the timing and amounts of long-term financing. At December 31, 2022, the Company had available committed and uncommitted lines of credit of approximately $1 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)	2023	2024	2025	2026	2027	2028 and thereafter
Financial Liabilities						
Accounts payable and accrued liabilities	588	—	—	—	—	—
Accounts payable to parent and affiliate companies	57	—	—	—	—	—
Long-term debt:						
Principal	100	127	—	—	—	8,305
Interest expense	361	351	350	350	350	6,339
	1,106	478	350	350	350	14,644
Commitments						
Purchase obligations:						
Operating and maintenance agreements	350	276	61	54	52	118
Capital expenditures	330	—	—	—	—	—
Other	6	6	22	6	6	6
	686	282	83	60	58	124
Total	1,792	760	433	410	408	14,768

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 2022 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 2021 have been calculated using the same composition and are disclosed alongside the current total of segments measures in this MD&A. A reconciliation of the total of segments measures with total earnings for the period is presented in this MD&A.

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

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

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

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

($ millions)					**Three Months Ended December 31**
2022 2021	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**363**	**475**	**—**	**(1)**	**837**
	374	454	—	(2)	826
Adjusted earnings (loss)	**70**	**83**	**(2)**	**—**	**151**
	72	92	—	—	164
Rate-regulated activities	**(31)**	**18**	**—**	**—**	**(13)**
	(17)	9	(1)	—	(9)
IT Common Matters decision	**(2)**	**(2)**	**—**	**—**	**(4)**
	(2)	(2)	—	—	(4)
Transition of managed IT services	**—**	**—**	**—**	**—**	**—**
	(2)	(4)	—	—	(6)
Dividends on equity preferred shares of the Company	**1**	**1**	**—**	**—**	**2**
	1	—	—	—	1
AUC enforcement proceeding	**—**	**—**	**—**	**—**	**—**
	(14)	—	—	—	(14)
Earnings (loss) for the period	**38**	**100**	**(2)**	**—**	**136**
	38	95	(1)	—	132

($ millions) | Year Ended December 31

2022 / 2021	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	**1,464**	**1,692**	**—**	**(5)**	**3,151**
	1,376	1,452	—	(5)	2,823
Adjusted earnings (loss)	**326**	**246**	**(4)**	**—**	**568**
	303	223	(3)	—	523
Rate-regulated activities	**(12)**	**86**	**—**	**—**	**74**
	(56)	(29)	—	—	(85)
IT Common Matters decision	**(9)**	**(6)**	**—**	**—**	**(15)**
	(8)	(6)	—	—	(14)
Transition of managed IT services	**—**	**—**	**—**	**—**	**—**
	(14)	(18)	—	—	(32)
Dividends on equity preferred shares of the Company	**4**	**3**	**—**	**—**	**7**
	5	4	—	—	9
AUC enforcement proceeding	**(27)**	**—**	**—**	**—**	**(27)**
	(14)	—	—	—	(14)
Workplace COVID-19 vaccination standard	**(3)**	**(5)**	**—**	**—**	**(8)**
	—	—	—	—	—
Gain on sale of ownership interest in a subsidiary company	**5**	**—**	**—**	**—**	**5**
	—	—	—	—	—
Earnings (loss) for the year	**284**	**324**	**(4)**	**—**	**604**
	216	174	(3)	—	387

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 December 31			Year Ended December 31		
($ millions)	**2022**	**2021**	**Change**	**2022**	**2021**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**23**	22	1	**114**	107	7
Impact of colder temperatures (2)	**11**	4	7	**3**	—	3
Revenues to be billed in future periods						
Deferred income taxes (3)	**(40)**	(32)	(8)	**(103)**	(103)	—
Distribution rate relief (4)	**—**	(24)	24	**—**	(119)	119
Impact of warmer temperatures (2)	**—**	—	—	**—**	(1)	1
Settlement of regulatory decisions and other items						
Distribution rate relief (4)	**20**	—	20	**104**	—	104
Other (5)	**(27)**	21	(48)	**(44)**	31	(75)
	(13)	(9)	(4)	**74**	(85)	159

(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 applied for interim rate relief for customers to hold current distribution base rates in place. Following approval by the AUC, Electricity Distribution and Natural Gas Distribution recorded a decrease in earnings during the fourth quarter and year ended December 31, 2021 of $24 million and $119 million (after-tax). Based on direction from the AUC, collection of 2021 deferred rates commenced in 2022 and for the fourth quarter and year ended December 31, 2022, $20 million and $104 million (after-tax) was billed to customers.

(5) In 2022, Electricity Distribution recorded a decrease in earnings of $18 million (after-tax) related to payments of electricity transmission costs and Natural Gas Distribution recorded a decrease in earnings of $15 million (after-tax) related to payments of gas pipeline system load balancing costs. In 2021, Natural Gas Distribution collected $53 million (after-tax) related to depreciation and transmission rate riders, which was partly offset by a decrease in earnings of $28 million (after-tax) related to payments of 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 in the fourth quarter and full year of 2022 was $4 million and $15 million (after-tax) (2021 - $4 million and $14 million (after-tax)).

TRANSITION OF MANAGED IT SERVICES

In 2020, the Company's parent, Canadian Utilities Limited, signed a Master Services Agreement with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) to provide managed information technology services. These services were previously provided by Wipro Ltd. under ten-year MSAs expiring in December 2024.

The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and was complete by December 31, 2021. The Company recognized transition costs of $6 million and $32 million (after-tax), respectively, during the fourth quarter and year ended December 31, 2021.

AUC ENFORCEMENT PROCEEDING

On April 14, 2022, the AUC Enforcement branch and ATCO Electric Transmission filed a settlement with the AUC regarding a sole source contract for the Jasper interconnection project. On June 29, 2022, the AUC issued its decision approving the settlement in its entirety. In the fourth quarter of 2021 and first quarter of 2022, the Company recognized costs of $14 million and $27 million (after-tax), respectively, related to the proceeding.

WORKPLACE COVID-19 VACCINATION STANDARD

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

GAIN ON SALE OF OWNERSHIP INTEREST IN A SUBSIDIARY COMPANY

On March 31, 2022, the Company and Denendeh Investments Incorporated (DII) entered into a share purchase agreement to increase DII's ownership interest in 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 for the period.

($ millions)	CU Inc.							Three Months Ended December 31
2022 2021	Electricity			Natural Gas			Consolidated	
	Electricity Distribution	Electricity Transmission	Consolidated Electricity	Natural Gas Distribution	Natural Gas Transmission	Consolidated Natural Gas		
Adjusted earnings	**33**	**37**	**70**	**63**	**20**	**83**	**153**	
	37	35	72	72	20	92	164	
Rate-regulated activities	**(22)**	**(9)**	**(31)**	**26**	**(8)**	**18**	**(13)**	
	(25)	8	(17)	15	(6)	9	(8)	
IT Common Matters decision	**(2)**	**—**	**(2)**	**(2)**	**—**	**(2)**	**(4)**	
	(1)	(1)	(2)	(2)	—	(2)	(4)	
Transition of managed IT services	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
	(1)	(1)	(2)	(4)	—	(4)	(6)	
Dividends on equity preferred shares of the Company	**1**	**—**	**1**	**1**	**—**	**1**	**2**	
	1	—	1	—	—	—	1	
AUC enforcement proceeding	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
	—	(14)	(14)	—	—	—	(14)	
Earnings for the period	**10**	**28**	**38**	**88**	**12**	**100**	**138**	
	11	27	38	81	14	95	133	

($ millions)	CU Inc.							Year Ended December 31
2022 / 2021	Electricity			Natural Gas			Consolidated	
	Electricity Distribution	Electricity Transmission	Consolidated Electricity	Natural Gas Distribution	Natural Gas Transmission	Consolidated Natural Gas		
Adjusted earnings	**161**	**165**	**326**	**158**	**88**	**246**	**572**	
	151	152	303	142	81	223	526	
Rate-regulated activities	**(29)**	**17**	**(12)**	**98**	**(12)**	**86**	**74**	
	(76)	20	(56)	(9)	(20)	(29)	(85)	
IT Common Matters decision	**(5)**	**(4)**	**(9)**	**(5)**	**(1)**	**(6)**	**(15)**	
	(4)	(4)	(8)	(5)	(1)	(6)	(14)	
Transition of managed IT services	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
	(10)	(4)	(14)	(16)	(2)	(18)	(32)	
Dividends on equity preferred shares of the Company	**2**	**2**	**4**	**2**	**1**	**3**	**7**	
	2	3	5	3	1	4	9	
AUC enforcement proceeding	**—**	**(27)**	**(27)**	**—**	**—**	**—**	**(27)**	
	—	(14)	(14)	—	—	—	(14)	
Workplace COVID-19 vaccination standard	**(2)**	**(1)**	**(3)**	**(3)**	**(2)**	**(5)**	**(8)**	
	—	—	—	—	—	—	—	
Gain on sale of ownership interest in a subsidiary company	**5**	**—**	**5**	**—**	**—**	**—**	**5**	
	—	—	—	—	—	—	—	
Earnings for the year	**132**	**152**	**284**	**250**	**74**	**324**	**608**	
	63	153	216	115	59	174	390	

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 2022 Consolidated Financial Statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 22 of the 2022 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.

FINANCIAL INSTRUMENTS

Financial instruments are measured at amortized cost or fair value. The valuation methods used to measure financial instruments are described in Note 19 of the 2022 Consolidated Financial Statements, which are prepared in accordance with IFRS.

RELATED PARTY TRANSACTIONS

Transactions with related parties in the normal course of business are measured at the exchange amount. Transfers of assets between entities under common control are measured at the carrying amount. For further information, please refer to Note 27 of the 2022 Consolidated Financial Statements.

ACCOUNTING CHANGES

At December 31, 2022, 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 2023 Consolidated Financial Statements once adopted.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2022, 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, 2022.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company’s internal control over financial reporting that occurred during the period beginning on January 1, 2022, and ended on December 31, 2022, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial statement preparation and may not prevent or detect all misstatements.

As of December 31, 2022, management evaluated the effectiveness of the Company’s internal control over financial reporting as required by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the CEO and the CFO.

Based on this evaluation, the CEO and the CFO have concluded that the Company’s internal control over financial reporting was effective at December 31, 2022.

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, goals and targets, including ESG targets and the commitment to achieve net zero GHG emissions by 2050; expected emissions reductions; planned project and program implementation; expected timing of regulatory decisions; planned facility construction; future minimum national carbon pricing per tonne in Canada; expected capital investment and mid-year rate base growth forecasts.

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

The Company's actual results could differ materially from those anticipated in this forward-looking information as a result of, among other things, risks inherent in the performance of assets; capital efficiencies and cost savings; applicable laws and government policies; regulatory decisions; competitive factors in the industries in which the Company operates; prevailing economic conditions; 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 this MD&A.

This MD&A may contain information that constitutes future-oriented financial information or financial outlook information, all of which are subject to the same assumptions, risk factors, limitations and qualifications set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on such future-oriented financial information or financial outlook information. The Company's actual results, performance and achievements could differ materially from those expressed in, or implied by, such future-oriented financial information or financial outlook information. The Company has included such information in order to provide readers with a more complete perspective on its future operations and its current expectations relating to its future performance. Such information may not be appropriate for other purposes and readers are cautioned that such information should not be used for purposes other than those for which it has been disclosed herein. Future-oriented financial information or financial outlook information contained herein was made as of the date of this MD&A.

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

ADDITIONAL INFORMATION

CU Inc. has published its 2022 Consolidated Financial Statements and MD&A for the year ended December 31, 2022. 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

AESO means Alberta Electric System Operator.

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

AUC means the Alberta Utilities Commission.

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

Class A shares means Class A non-voting 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.

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

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

ECM means efficiency carry-over mechanism.

ESG means Environmental, Social and Governance.

EV means electric vehicle.

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

GTA means general tariff application.

IFRS means International Financial Reporting Standards.

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

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

O&M means operating and maintenance.

PBR means Performance Based Regulation.

ROE means return on equity.

APPENDIX 1

FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2022 and 2021 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2022**	**2021**
Revenues	**837**	826
Costs and expenses		
Salaries, wages and benefits	**(73)**	(69)
Energy transmission and transportation	**(68)**	(68)
Plant and equipment maintenance	**(75)**	(56)
Fuel costs	**(4)**	(3)
Purchased power	**(15)**	(26)
Depreciation and amortization	**(150)**	(148)
Franchise fees	**(84)**	(76)
Property and other taxes	**(16)**	(17)
Other	**(81)**	(87)
	(566)	(550)
Operating profit	**271**	276
Interest income	**2**	—
Interest expense	**(93)**	(100)
Net finance costs	**(91)**	(100)
Earnings before income taxes	**180**	176
Income taxes	**(44)**	(44)
Earnings for the period	**136**	132

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2022	2021
Operating activities		
Earnings for the period	**136**	132
Adjustments to reconcile earnings to cash flows from operating activities	**296**	299
Changes in non-cash working capital	**(35)**	3
Cash flows from operating activities	**397**	434
Investing activities		
Additions to property, plant and equipment	**(315)**	(200)
Additions to intangibles	**(37)**	(25)
Changes in non-cash working capital	**37**	(14)
Other	**1**	(1)
Cash flows used in investing activities	**(314)**	(240)
Financing activities		
(Repayment) issue of short-term debt	**(19)**	206
Issue of long-term debt	**—**	1
Repayment of long-term debt	**—**	(160)
Repayment of lease liabilities	**(1)**	—
Dividends paid on equity preferred shares	**(2)**	(1)
Dividends paid to Class A and Class B share owner	**(148)**	(109)
Interest paid	**(94)**	(105)
Other	**(1)**	(2)
Cash flows used in financing activities	**(265)**	(170)
(Decrease) increase in cash position	**(182)**	24
Beginning of period	**170**	28
End of period	**(12)**	52