



An **ATCO** Company

CU INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2021

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of CU Inc. (our, we, us, or the Company) during the three months ended March 31, 2021.

This MD&A was prepared as of April 28, 2021, and should be read with the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2021. Additional information, including the Company's previous MD&A (2020 MD&A), Annual Information Form (2020 AIF), and audited consolidated financial statements for the year ended December 31, 2020 is available on SEDAR at www.sedar.com. Information contained in the 2020 MD&A is not discussed in this MD&A if it remains substantially unchanged.

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

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

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UTILITIES PERFORMANCE

REVENUES

Revenues of \$743 million in the first quarter of 2021, were \$11 million lower than the same period in 2020. Lower revenues were mainly due to warmer weather causing lower demand in our Natural Gas Distribution business.

Revenue growth for Electricity and Natural Gas Distribution in the first quarter of 2021 has been deferred to be collected in a future period as a result of our decision to provide rate relief to customers in light of the current COVID-19 global pandemic and the economic situation in Alberta.

ADJUSTED EARNINGS

	Three Months Ended March 31		
(\$ millions)	2021	2020	Change
Electricity			
Electricity Distribution	42	35	7
Electricity Transmission	43	43	—
Total Electricity	85	78	7
Natural Gas			
Natural Gas Distribution	81	82	(1)
Natural Gas Transmission	19	22	(3)
Total Natural Gas	100	104	(4)
Corporate & Other and Intersegment Eliminations	(1)	(2)	1
Total Utilities Adjusted Earnings⁽¹⁾	184	180	4

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

Utilities adjusted earnings of \$184 million in the first quarter of 2021 were \$4 million higher than the same period in 2020. Higher earnings were mainly due to cost efficiencies and continued growth in the regulated rate base in Electricity Distribution.

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

Electricity Distribution

Electricity Distribution provides regulated electricity distribution and distributed generation mainly in northern and central east Alberta, the Yukon, the Northwest Territories and in the Lloydminster area of Saskatchewan.

Electricity Distribution adjusted earnings of \$42 million in the first quarter of 2021 were \$7 million higher compared to the same period in 2020. Higher earnings were mainly due to cost efficiencies and continued growth in rate base.

Electricity Transmission

Electricity Transmission provides regulated electricity transmission mainly in Northern and Central East Alberta, and in the Lloydminster area of Saskatchewan. Electricity Transmission 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 \$43 million in the first quarter of 2021 were comparable to the same period in 2020.

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 \$81 million in the first quarter of 2021 were \$1 million lower than the same period in 2020. Lower earnings were mainly due to the timing of operating costs, partially offset by growth in rate base.

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 \$19 million in the first quarter of 2021 were \$3 million lower than the same period in 2020. Lower adjusted earnings were mainly due to the impact of the 2021-2023 General Rate Application decision which included operating cost efficiencies implemented in prior periods that are being passed on to customers.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the first quarter of 2021 were \$1 million higher than the same period in 2020 mainly due to the timing of certain expenditures.

REGULATORY DEVELOPMENTS

COMMON MATTERS

2021 Rate Relief Application

In December 2020, the AUC approved Electric Distribution and Natural Gas Distribution requests to defer rate increases which would normally have come into effect on January 1, 2021. The AUC directed Electricity Distribution and Natural Gas Distribution to file an application outlining the duration of the rate freeze and collection timeline.

On March 1, 2021, CU Inc. filed a 2021 Rate Relief Application for Electricity Distribution and Natural Gas Distribution to postpone rate increases for the full year 2021 and collect the deferred amounts commencing in 2023 for no more than a 5-year period. This application aligns with our long-standing practice of supporting the communities we have the privilege to serve. The current economic situation in Alberta, including hardships faced by customers due to the COVID-19 pandemic, is the rationale for the rate freeze.

Distribution Regulatory Framework - Post 2022

On March 1, 2021, the AUC initiated a process to set revenues and rates for Electricity Distribution and Natural Gas Distribution for 2023 as well as a process to evaluate the merits of PBR to date. These processes will address how a one-year cost-of-service study for 2023 will be undertaken as well as a proceeding to determine the regulatory framework for Alberta distribution utilities going forward.

Generic Cost of Capital (GCOC)

On March 4, 2021, the AUC issued a decision on the 2022 GCOC proceeding. The Commission approved the extension of the current return on equity of 8.5 per cent and equity thickness ratio of 37 per cent on a final basis for the 2022 period.

ELECTRICITY TRANSMISSION

2020-2022 General Tariff Application (GTA)

In October 2019, Electricity Transmission filed a GTA for its operations for 2020, 2021, and 2022. The decision was received in March 2021 approving the vast majority of requested capital expenditures and operating costs as filed.

NATURAL GAS TRANSMISSION

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

In June 2020, Natural Gas Transmission filed a GRA for the period 2021-2023. The decision was received in March 2021, approving the vast majority of requested capital expenditures and operating costs as filed, which included operating cost efficiencies implemented in prior periods that are being passed on to customers. The decision also approved a placeholder treatment for the Pioneer Pipeline acquisition pending a decision from the AUC on the acquisition proceeding. A decision is expected in the second quarter of 2021.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the first quarter of 2021 and 2020 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.

(\$ millions)	Three Months Ended March 31		
	2021	2020	Change
Operating costs	346	335	11
Depreciation and amortization	133	127	6
Net finance costs	91	91	—
Income tax expense	40	49	(9)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by \$11 million in the first quarter of 2021 when compared to the same period in 2020. Higher operating costs were mainly due to higher flow-through natural gas transmission costs and the recognition of transition costs in the first quarter of 2021 related to the early termination of the Master Services Agreement with Wipro for managed IT services.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by \$6 million in the first quarter of 2021 when compared to the same period in 2020 mainly due to continued capital investment.

NET FINANCE COSTS

Net finance costs in the first quarter of 2021 were comparable to the same period in 2020.

INCOME TAX

Income taxes were lower by \$9 million in the first quarter of 2021 compared to the same period in 2020 mainly due to lower earnings before income taxes as a result of the timing of certain revenues and expenses, and transition costs from the early termination of the Master Services Agreement with Wipro for managed IT services.

LIQUIDITY AND CAPITAL RESOURCES

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

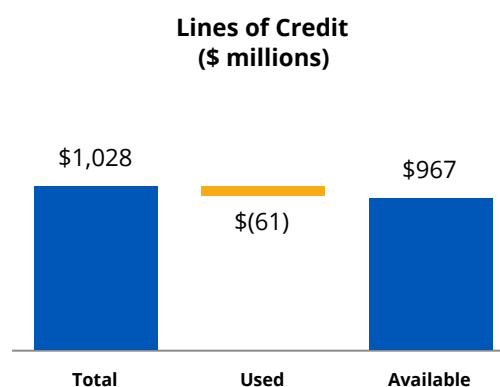
LINES OF CREDIT

At March 31, 2021, CU Inc. and its subsidiaries had the following lines of credit.

<i>(\$ millions)</i>	Total	Used	Available
Long-term committed	900	—	900
Uncommitted	128	61	67
Total	1,028	61	967

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

The other \$900 million in lines of credit was committed, with maturities between 2022 and 2023, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.



CONSOLIDATED CASH FLOW

At March 31, 2021, the Company's cash position was \$191 million, an increase of \$213 million compared to December 31, 2020 mainly due to funds generated by operations achieved during the quarter, partially offset by cash used to fund the capital investment program.

Funds Generated by Operations

Funds generated by operations were \$412 million for the first quarter of 2021, \$19 million lower compared to the same period in 2020. The decrease was mainly due to the timing of certain revenues and expenses. Lower funds generated by operations were partially offset by higher customer contributions for Electricity Transmission capital investments.

Funds generated by operations in 2021 are expected to be adversely impacted as a result of CU Inc.'s decision to provide rate relief to customers through the deferral of rate increases for Electricity Distribution and Natural Gas Distribution and the proposal to the AUC to collect these deferred amounts beginning in 2023.

Cash Used for Capital Expenditures

Cash used for capital expenditures was \$204 million in the first quarter of 2021, \$34 million lower compared to the same period in 2020 mainly due to timing of capital expenditures in the Utilities and the completion of construction in the first quarter of 2020 on the Pembina-Keephills transmission pipeline in the Natural Gas Transmission business.

Capital expenditures for the first quarter of 2021 and 2020 is shown in the table below.

(\$ millions)	Three Months Ended March 31		
	2021	2020	Change
Electricity Distribution	54	66	(12)
Electricity Transmission	34	42	(8)
Natural Gas Distribution	56	57	(1)
Natural Gas Transmission	60	73	(13)
Total ⁽¹⁾⁽²⁾	204	238	(34)

(1) Includes additions to property, plant and equipment, intangibles and \$3 million (2020 - \$5 million) of interest capitalized during construction for the first quarter of 2021.

(2) Includes \$52 million (2020 - \$26 million) of capital expenditures that were funded with the assistance of customer contributions.

Base Shelf Prospectus - CU Inc. Debentures

On September 16, 2020, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of \$1.2 billion of debentures over the 25-month life of the prospectus. As of April 28, 2021, aggregate issuances of debentures were \$150 million.

SHARE CAPITAL

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

At April 27, 2021, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

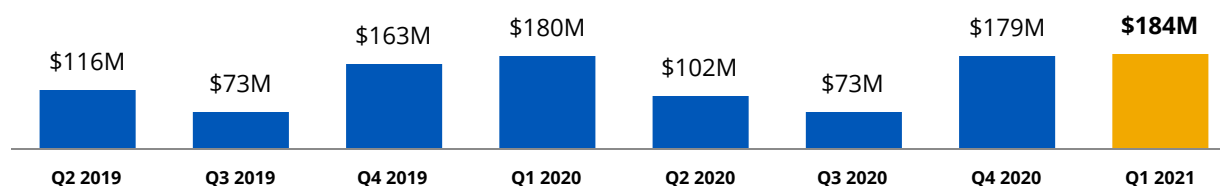
The following table shows financial information for the eight quarters ended June 30, 2019 through March 31, 2021.

(\$ millions)	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Revenues	636	601	739	743
Earnings for the period	80	77	95	133
Adjusted earnings (loss)				
Electricity	78	70	79	85
Natural Gas	26	4	101	100
Corporate & Other and Intersegment Eliminations	(2)	(1)	(1)	(1)
Total adjusted earnings	102	73	179	184

(\$ millions)	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Revenues	638	618	772	754
Earnings for the period	303	112	157	152
Adjusted earnings (loss)				
Electricity	90	73	83	78
Natural Gas	26	—	80	104
Corporate & Other and Intersegment Eliminations	—	—	—	(2)
Total adjusted earnings	116	73	163	180

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

ADJUSTED EARNINGS



Adjusted earnings in the second and third quarters of 2019 and 2020 were impacted by lower seasonal demand in the Natural Gas Distribution business. Adjusted earnings in the fourth quarter of 2020 and first quarter of 2021 were higher compared to the same periods in 2019 and 2020 mainly due to continued cost efficiencies and rate base growth.

EARNINGS FOR THE PERIOD

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

- In the fourth quarter of 2020 and first quarter of 2021, the Company's parent, Canadian Utilities Limited, signed a Master Services Agreements (MSA) with IBM Canada Ltd. (IBM) to provide managed information technology (IT) services. These services are currently provided by Wipro Ltd. (Wipro) under a ten-year MSA expiring in December 2024. The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and is expected to be completed by the third quarter of 2021. The Company recognized costs of \$52 million (after-tax) in the fourth quarter of 2020 and transition costs of \$6 million (after-tax) in the first quarter of 2021. As these costs are not in the normal course of business, they have been excluded from adjusted earnings.

NON-GAAP AND ADDITIONAL GAAP MEASURES

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

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

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

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

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

Adjusted earnings are a key measure of segment earnings that management uses to assess segment performance and allocate resources. It is management's view that adjusted earnings allow a better assessment of the economics of rate regulation in Canada than IFRS earnings.

<i>(\$ millions)</i>	Three Months Ended March 31				
2021					
2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues	334	410	—	(1)	743
	320	435	—	(1)	754
Adjusted earnings (loss)	85	100	(1)	—	184
	78	104	(2)	—	180
Rate-regulated activities	(24)	(20)	—	—	(44)
	(29)	2	—	—	(27)
IT Common Matters decision	(2)	(2)	—	—	(4)
	(2)	(2)	—	—	(4)
Transition of managed IT services	(3)	(3)	—	—	(6)
	—	—	—	—	—
Dividends on equity preferred shares of the Company	2	1	—	—	3
	1	2	—	—	3
Earnings (loss) for the period	58	76	(1)	—	133
	48	106	(2)	—	152

RATE-REGULATED ACTIVITIES

Electricity Distribution and Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as Natural Gas Distribution and Natural Gas Transmission are collectively referred to as the Utilities.

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the Utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the Utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

The Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles to account for rate-regulated activities in its internal reporting provided to the CODM. The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated

accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of a regulator's decisions on revenues.

Rate-regulated accounting differs from IFRS in the following ways:

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

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

(\$ millions)	Three Months Ended		
	2021	2020	Change
Additional revenues billed in current period			
Future removal and site restoration costs ⁽¹⁾	29	22	7
Impact of colder temperatures ⁽²⁾	—	5	(5)
Revenues to be billed in future periods			
Deferred income taxes ⁽³⁾	(25)	(34)	9
Distribution rate relief ⁽⁴⁾	(41)	—	(41)
Impact of warmer temperatures ⁽²⁾	(2)	—	(2)
Settlement of regulatory decisions and other items ⁽⁵⁾	(5)	(20)	15
	(44)	(27)	(17)

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

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

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

- (4) *In the first quarter of 2021, Electricity Distribution and Natural Gas Distribution recorded a decrease in earnings of \$41 million related to interim rate relief for customers as applied for by the Company and approved by the AUC to hold current distribution base rates in place. This will be recovered from customers in future periods.*
- (5) *In the first quarter of 2020, Electricity Distribution recorded a decrease in earnings of \$27 million related to payment of transmission costs. This is being recovered from customers in future periods.*

IT COMMON MATTERS DECISION

Consistent with the treatment of the gain on sale in 2014 from the IT services business by CU Inc.'s parent, Canadian Utilities Limited, financial impacts associated with the IT Common Matters decision are excluded from adjusted earnings. The amount excluded from adjusted earnings for the three months ended March 31, 2021 was \$4 million (2020 - \$4 million).

TRANSITION OF MANAGED IT SERVICES

In the fourth quarter of 2020 the Company's parent, Canadian Utilities Limited, signed a Master Services Agreement with IBM to provide managed IT services. These services are currently provided by Wipro under a ten-year MSA expiring in December 2024. The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and is expected to be completed by the third quarter of 2021.

For the three months ended March 31, 2021, the Company recognized transition costs of \$6 million (after-tax). These transition costs relate to the activities to transfer the managed IT services from Wipro to IBM. As these costs are not in the normal course of business, they have been excluded from Adjusted Earnings.

OTHER FINANCIAL INFORMATION

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2021, and ended on March 31, 2021, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

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

The Company's actual results could differ materially from those anticipated in any forward-looking information contained in this MD&A as a result of regulatory decisions, competitive factors in the industries in which the Company operates, prevailing economic conditions (including as may be affected by the COVID-19 pandemic) and other factors, many of which are beyond the control of the Company.

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

ADDITIONAL INFORMATION

CU Inc. has published its unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 2021. Copies of these documents may be obtained upon request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4, telephone 403-292-7500, fax 403-292-7532 or email investorrelations@atco.com.

GLOSSARY

AUC means the Alberta Utilities Commission.

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

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

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

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

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

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

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.

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

ECM means Efficiency Carryover Mechanism by which the AUC incentivizes efficiency improvements for the distribution utilities based on certain criteria. If the efficiency improvement criteria are met in a prior PBR term, the ECM provides up to an additional 0.5 per cent return on equity for the first two years of the next PBR term.

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

IFRS means International Financial Reporting Standards.

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

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

PBR means Performance Based Regulation.