FINANCIAL INFORMATION 2021

CU INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 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 year ended December 31, 2021.

This MD&A was prepared as of February 23, 2022, and should be read with the Company's audited consolidated financial statements (2021 Consolidated Financial Statements) for the year ended December 31, 2021. Additional information, including the Annual Information Form (2021 AIF) that will be filed on March 31, 2022, is available on SEDAR at www.sedar.com.

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

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

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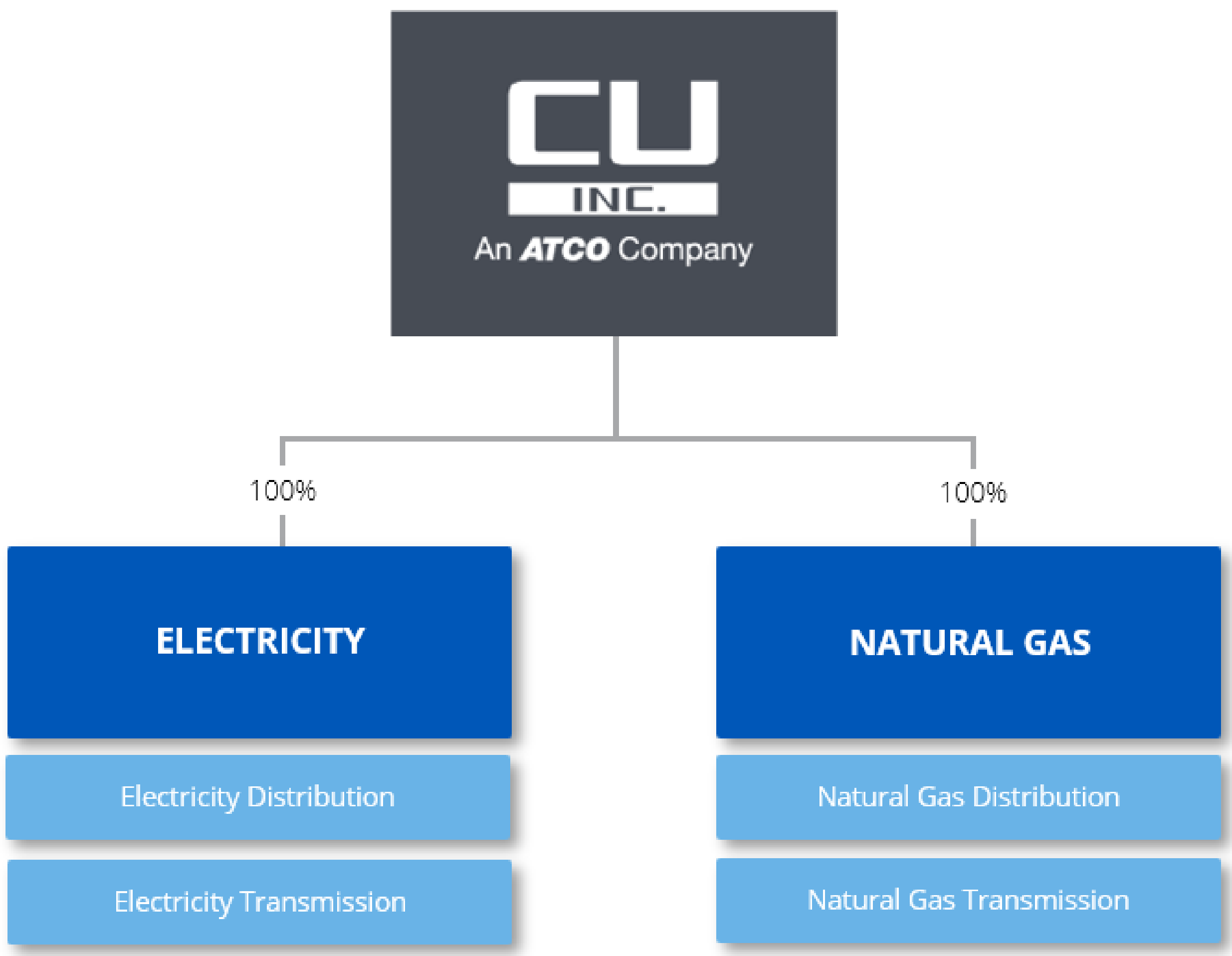
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 3,200 employees and assets of $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 2021 Consolidated Financial Statements include the accounts of CU Inc. and all of its subsidiaries. The 2021 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

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.

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

CORPORATE PILLARS

Innovation

We seek to create an inclusive work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to applied research and development, we are able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

Growth

Our long-term strategy is focused on sustainable growth. We protect our core utility assets and invest in activities aimed at advancing the energy transition and ensuring long-term resiliency. By optimizing current assets and adding new growth platforms, while consistently delivering reliable, safe, cleaner, and affordable energy for our customers, CU Inc. will continue to drive cash flow and earnings to improve financial strength and growth capacity.

We pursue the acquisition and development of complementary assets and businesses that have future growth potential and provide long-term value.

Financial Strength

Financial strength is the bedrock of our current and future success. It ensures that we have the financial capacity to fund existing and future capital investments through a combination of predictable cash flows from operations, cash balances on hand, credit facilities and access to capital markets. It enables us to sustain our operations and to grow through economic cycles, thereby providing long-term financial benefits.

We continuously review CU Inc.'s holdings to evaluate opportunities to sell mature assets and recycle the proceeds into growing areas of the Company. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across the Company.

Operational Excellence

We achieve operational excellence through high service, reliability, and product quality for our customers and the communities we serve. We are uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize our environmental impact. We ensure the timely supply of goods and services that are critical to our customers' ability to meet their core business objectives.

Community Involvement

We are committed to a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community involvement creates the opportunity to develop partnerships with Indigenous and community groups and build ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. We also engage with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization. We encourage our employees to participate in community initiatives that will serve to benefit non-profit organizations through volunteer efforts, and the provision of products and services in-kind.

SUSTAINABILITY PILLARS

CU Inc. conducts business in a manner that reflects our values. Integrity, agility, collaboration and caring—these foundational principles help us deliver on our commitment to sustainability. We report on five focus areas: Energy Transition, Climate Change & Environmental Stewardship, Operational Reliability & Resilience, People and Community & Indigenous Relations.

Strategic Environmental, Social and Governance (ESG) Targets For 2030

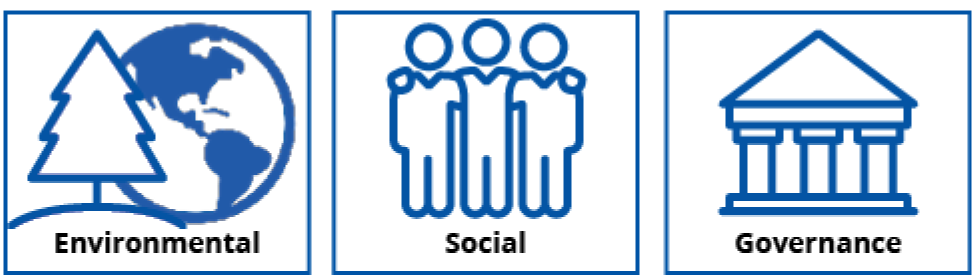
In January 2022, CU Inc.'s ultimate parent company, ATCO, announced an initial set of 2030 environmental, social and governance targets, and a commitment to achieve net zero greenhouse gas (GHG) emissions by 2050.

ATCO's 2030 ESG targets include reducing its operational and customer emissions, growing its renewable energy footprint, 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, including reductions in operational GHG emissions.

ATCO (with the support of CU Inc.) is actively pursuing several pathways to further reduce its operational emissions, as well as its customers' emissions, by accelerating the deployment and use of cleaner fuels (hydrogen and renewable natural gas), renewable energy, energy infrastructure and storage (including carbon capture technologies), energy efficiency and carbon offsets. In support of its net zero commitment, ATCO is also working with all levels of government to advocate for enabling policy and regulation, and to identify barriers that impede cost-effective, economy-wide decarbonization. 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.

ATCO continues to evaluate further ESG targets and conduct additional analysis with respect to the Company's 2050 net zero commitment. Additional information and progress towards ESG targets will be included in ATCO's annual Sustainability Report, which will be available in May 2022.



FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

CU Inc.'s financial and operational achievements in 2021 relative to the strategies outlined above are included in this MD&A, the 2021 Consolidated Financial Statements and the forthcoming 2021 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 2021.

Target Met | Target Partially Met | Target Not Met

STRATEGIC PRIORITIES	2021 TARGET	2021 PERFORMANCE
INNOVATION		
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs.	
	• Continue to support communities and customers through the deployment of cleaner energy solutions.	The Vuntut Gwitchin First Nation and CU Inc. announced the completion of Canada's most northerly off-grid solar project, reducing diesel use by 189,000 litres annually in Old Crow, Yukon and providing a clean energy source for decades to come.
	• Explore further opportunities to invest in clean fuel initiatives such as hydrogen and renewable natural gas.	CU Inc. continued execution of a hydrogen blending project in Fort Saskatchewan, Alberta, that was advanced in 2020. Once complete, the project will be Canada's largest hydrogen blending project.

STRATEGIC PRIORITIES	2021 TARGET	2021 PERFORMANCE
GROWTH		
Regulated and long-term contracted capital investment	Continue to strategically invest in technology and the modernization of both the natural gas and electricity networks to enhance sustainability and flexibility while reducing the long term need for additional utility infrastructure, resulting in lower costs and an improved experience for customers.	Continued progression on the digitization of the grid: • Continued deployment of Advanced Metering Infrastructure (AMI) across our service territory. The communities of Grande Prairie and Chipewyan Lake are now complete. • Progressing on the Automated Distribution Management System (ADMS) that will orchestrate the delivery of electricity across a multi-directional flowing grid. CU Inc. announced the acquisition of the Pioneer Pipeline in 2020 and closed this transaction on June 30, 2021. The 131-km natural gas pipeline has been incorporated into NOVA Gas Transmission's (NGTL) and ATCO's Alberta regulated natural gas transmission systems to provide reliable natural gas supply to TransAlta's power generating units at Sundance and Keephills, facilitating the conversion of these coal plants to cleaner-burning natural gas. Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission will transfer to NGTL the 30-km segment of pipeline in 2022 that is located in the NGTL footprint. The pipeline transfer was approved by the Canada Energy Regulator on December 22, 2021.
	Continue to advance replacement and improvement projects in the Utilities business to ensure that the safety and reliability of our gas and electricity systems are properly maintained and managed.	The ongoing Urban Pipeline Replacement (UPR) Program in Alberta consists of the removal of the remaining high-pressure service pipe, installation of remaining stations, and clean-up efforts. The project is expected to be completed in 2022 and will have removed a total of 310-km upon completion.
FINANCIAL STRENGTH		
Credit rating	Maintain investment grade credit rating.	Maintained 'A (high)' long-term credit rating with a stable trend with DBRS Limited. Maintained 'A-' long-term issuer credit rating with a stable outlook on CU Inc. with Standard & Poors.
Access to capital markets	Access capital at attractive rates.	In 2021, CU Inc. raised $460 million in 30-year debentures at a rate of 3.174 per cent. The issue was oversold and completed at an attractive spread of 138 basis points above Government of Canada 30-year bond rates.

STRATEGIC PRIORITIES	2021 TARGET	2021 PERFORMANCE
OPERATIONAL EXCELLENCE		
Lost-time incident frequency: employees **Total recordable incident frequency: employees**	Compare favourably to safety benchmarks.	Our lost-time incident frequency compares favourably to benchmarks such as Alberta Occupational Health and Safety, US private industry, and industry best practice rates. Our lost-time incident frequency in 2021 was 0.18/200,000 hours worked. Our total recordable incident frequency in 2021 compares favourably to benchmarks such as US private industry and industry best practice rates. Our total recordable incident frequency in 2021 was 1.62 incidents/200,000 hours worked.
Customer satisfaction	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years.	Within Electricity and Natural Gas Distribution, more than 97 per cent of customers agreed that CU Inc. provides good service. These results compare favourably to industry averages and are consistent with previous years.
Organizational transformation	Streamline and gain operational efficiencies. • Continue to optimize enterprise resource planning, workforce and asset management, customer information systems and computerized maintenance management systems.	The Company continued implementation of a Workforce and Asset Management program for its electricity and natural gas businesses to advance digitalization and data analytics. This technology will help to optimize resources, and digitize information and processes thereby providing a means to track, manage, and dispatch work to field-based employees more efficiently. The natural gas business is expected to complete implementation by 2022, followed by the electricity business in 2023. CU Inc. implemented a Customer Information System (CIS) replacement program. CIS holds our metering asset information, collects meter reads, calculates billing, and applies rates and production tariff bills for retailers. The replacement for both Natural Gas and Electricity is well underway, and the projects are on-track to go-live in 2022.

STRATEGIC PRIORITIES	2021 TARGET		2021 PERFORMANCE
COMMUNITY INVOLVEMENT			
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.		Across our operations, we awarded contracts of approximately $100 million for Indigenous and Indigenous-affiliated contractors in 2021. $64,500 was awarded to 52 students across Canada, including the territories, through the ATCO Indigenous Education Awards Program. A total of 5,280 employees participated in one of the many Indigenous training courses offered in 2021 through virtual classroom and training platforms.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.		With the combined efforts of our employees around the world, ATCO pledged more than $2.97 million to support hundreds of community charities through our annual ATCO EPIC campaign, taking the program's cumulative fundraising total to over $50 million since its inception in 2006. The ATCO Giving Gardens at Spruce Meadows was created in spring 2021 as a way to weave sustainability, volunteerism and generosity into one great initiative by providing fresh produce to Calgary's vulnerable seniors and veterans. ATCO provided 4,720 meals to seniors and veterans through our partnerships with the Calgary Seniors' Resource Society and the Homes For Heroes Foundation in Calgary. ATCO's Giving Gardens supplied the beets, potatoes, and squash towards these meals.

STRATEGIC PRIORITIES FOR 2022

The following table outlines our strategic priorities for 2022.

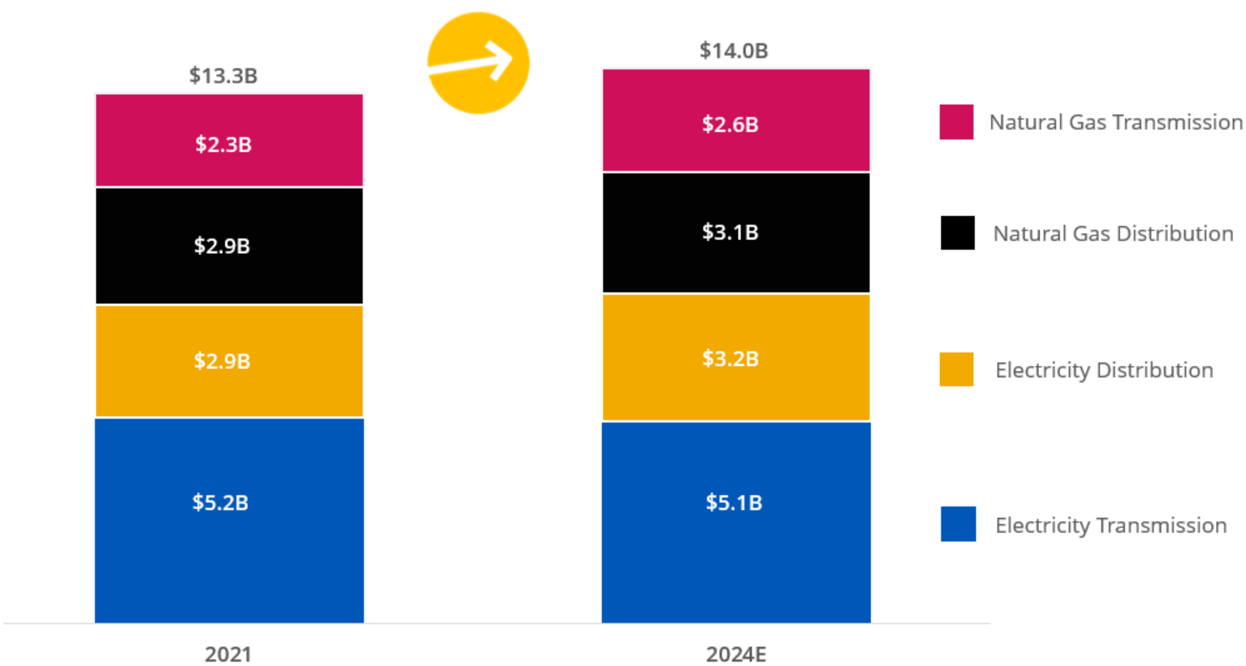
INNOVATION	
New and existing products and services	Continue to progress energy transition strategies to increase ownership, develop or manage renewable generation, and/or modernize natural gas and/or electricity delivery. Continue to prioritize a strategic role in working with remote communities to reduce their reliance on diesel fuels in a way that continues to support economic growth, energy independence, reconciliation and community building with Indigenous peoples.
GROWTH	
Regulated and long-term contracted capital investment	Continue to strategically invest in technology and the modernization of both the natural gas and electricity networks to enhance sustainability and flexibility. Continue to advance replacement and improvement projects in the Utilities business to ensure that the safety and reliability of our gas and electricity systems are properly maintained and managed.
FINANCIAL STRENGTH	
Credit rating	Maintain investment grade credit rating.
Access to capital markets	Continue to manage liquidity and access to capital in a prudent manner that facilitates strong access to capital at appropriate rates.
OPERATIONAL EXCELLENCE	
Lost-time and total recordable incident frequency: employees	Compare favourably to safety benchmarks.
Customer satisfaction	Achieve high service for the customers and communities we serve. Results from customer satisfaction surveys should be consistent with or better than prior years.
Organizational transformation	Streamline and gain operational efficiencies by continuing to optimize enterprise resource planning, workforce and asset management, customer information systems and computerized maintenance management systems.
COMMUNITY INVOLVEMENT	
Indigenous relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.

CAPITAL EXPENDITURE PLANS

In the 2022 to 2024 period, CU Inc. expects to invest approximately $3.1 billion in regulated utility capital growth projects, of which $1.0 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 $826 million and $2,823 million in the fourth quarter and full year of 2021 were $87 million and $93 million higher compared to the same periods in 2020 mainly due to higher flow-through revenues in the Electricity Distribution and Natural Gas Distribution businesses, and the timing of prior period costs recovered in Natural Gas Distribution.

Revenue growth for Electricity and Natural Gas Distribution in the fourth quarter and full year of 2021 has been deferred 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. The AUC issued a decision directing the Company to collect the 2021 deferred amounts commencing January 1, 2022.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Electricity						
Electricity Distribution [(1)]	**37**	37	—	**151**	131	20
Electricity Transmission [(1)]	**35**	42	(7)	**152**	174	(22)
Total Electricity	**72**	79	(7)	**303**	305	(2)
Natural Gas						
Natural Gas Distribution [(1)]	**72**	79	(7)	**142**	146	(4)
Natural Gas Transmission [(1)]	**20**	22	(2)	**81**	89	(8)
Total Natural Gas	**92**	101	(9)	**223**	235	(12)
Corporate & Other and Intersegment Eliminations	**—**	(1)	1	**(3)**	(6)	3
Total Utilities [(2)]	**164**	179	(15)	**523**	534	(11)

(1) Additional information regarding these Non-GAAP measures is provided in the Other Financial and Non-GAAP Measures section of this MD&A.
(2) Additional information regarding this total of segments measure is provided in the Other Financial and Non-GAAP Measures section of this MD&A.

Utilities adjusted earnings of $164 million in the fourth quarter of 2021 were $15 million lower than the same period in 2020 mainly due to timing of operating costs.

Utilities adjusted earnings of $523 million in the full year of 2021 were $11 million lower than the same period in 2020 mainly due to the impact of the Electricity Transmission 2018-2019 GTA Compliance Filing decision and the 2020-2022 GTA Compliance Filing decision received in 2021. Combined, these decisions included a $12 million reduction of earnings related to prior periods.

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

Electricity Distribution

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

Electricity Distribution adjusted earnings of $37 million in the fourth quarter of 2021 were comparable to the same period in 2020.

Electricity Distribution adjusted earnings of $151 million in the full year of 2021 were $20 million higher compared to the same period in 2020 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 $35 million in the fourth quarter of 2021 were $7 million lower than the same period in 2020 mainly due to timing of operating costs.

Electricity Transmission adjusted earnings of $152 million in the full year of 2021 were $22 million lower than the same period in 2020. Lower earnings were mainly due to the impact of the Electricity Transmission 2018-2019 GTA Compliance Filing decision received in the second quarter of 2021, and the 2020-2022 GTA Compliance Filing decision received in the third quarter of 2021. Combined, these decisions included a $12 million reduction of earnings 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 $72 million in the fourth quarter of 2021 were $7 million lower than the same period in 2020 mainly due to timing of operating costs.

Natural Gas Distribution adjusted earnings of $142 million in the full year of 2021 were $4 million lower than the same period in 2020 mainly due to higher 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 $20 million and $81 million in the fourth quarter and full year of 2021 were $2 million and $8 million lower than the same periods in 2020. Lower earnings were mainly due to the impact of the 2021-2023 General Rate Application which included operating cost efficiencies implemented in prior periods that are being passed on to customers, partially offset by growth in rate base.

CORPORATE & OTHER AND INTERSEGMENT ELIMINATIONS

Including intersegment eliminations, Corporate & Other adjusted earnings in the fourth quarter and full year of 2021 were $1 million and $3 million higher than the same period in 2020 mainly due to the timing of certain expenses.

RECENT DEVELOPMENTS

Executive Appointment

On October 1, 2021, the Board of Directors of CU Inc. appointed Brian Shkrobot to the position of Executive Vice President & Chief Financial Officer.

Old Crow Solar Development Project

In August 2021, the Vuntut Gwitchin First Nation and CU Inc.'s parent company, Canadian Utilities announced the completion of Canada's most northerly off-grid solar project, reducing diesel use by 189,000 litres annually in Old Crow, Yukon and providing a clean energy source for decades to come.

This project showcases a first-of-its-kind Electricity Purchase Agreement. Vuntut Gwitchin will serve as the Independent Power Producer, owner and operator of the solar facility and ATCO Electric Yukon will purchase the solar electricity generated for the next 25 years and feed it into the grid for redistribution to the community.

This facility, similar to the Fort Chipewyan Solar Farm in Northern Alberta, fosters community ownership and self-sustaining economic development through job creation, investment in infrastructure, and revenue from the sale of renewable energy.

Energy projects like this are models of effective collaboration to enable and accelerate the clean energy transition. The Company intends to replicate its success with many of the other Northern Communities reliant on diesel power.

Old Crow Solar Project - Old Crow, Yukon

REGULATORY INFORMATION

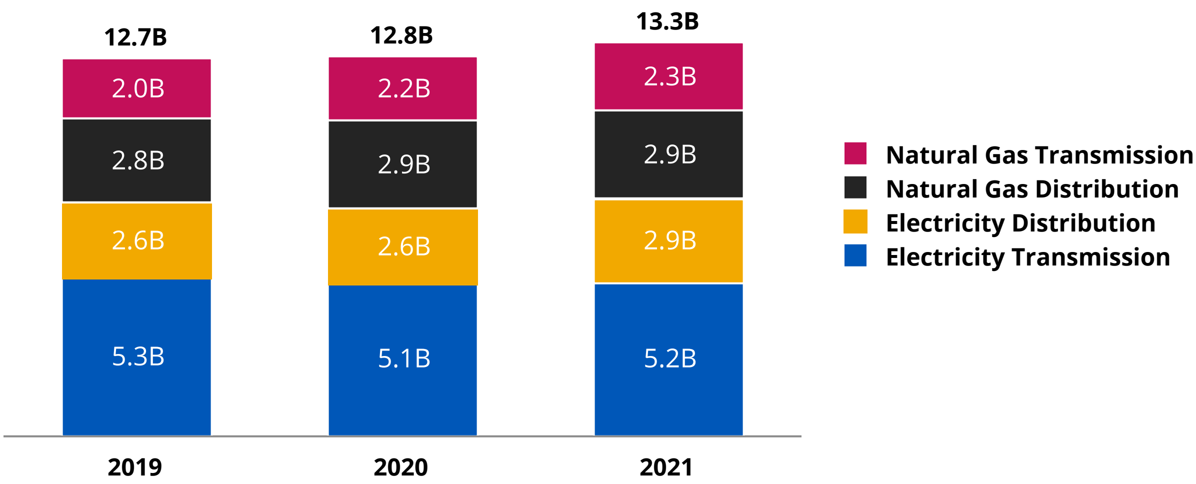
Regulated Business Models

The business operations of Electricity Distribution, Electricity Transmission, Natural Gas Distribution and Natural Gas Transmission are regulated mainly by the Alberta Utilities Commission (AUC). The AUC administers acts and regulations covering such matters as rates, financing and service area.

Natural Gas Transmission and Electricity Transmission operate under cost of service (COS) regulation. Under this model, the regulator establishes the revenues to provide for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as mid-year rate base. Growth in mid-year rate base is a leading indicator of the business' earnings trend, depending on changes in the approved equity component of the mid-year rate base and the rate of return on common equity.

Natural Gas Distribution and Electricity Distribution operate under performance-based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation less an estimated amount for productivity improvements. The AUC reviews the utilities' results annually to ensure the rate of return on common equity is within certain upper and lower boundaries. To do these calculations, the AUC uses mid-year rate base. For this reason, growth in mid-year rate base can be a leading indicator of the business' earnings trend, depending on the ability of the business to maintain costs based on approved going-in rates and on the formula that adjusts rates for inflation and productivity improvements.

Regulated Utilities Mid-Year Rate Base ($ Billions)



Generic Cost of Capital Proceeding (GCOC)

In August 2018, the AUC issued a decision approving a Return on Equity (ROE) of 8.5 per cent and capital structure of 37 per cent equity for the 2018, 2019 and 2020 periods for all Alberta Utilities. On October 13, 2020 and March 4, 2021, the AUC issued the decisions for 2021 and 2022, respectively, approving the extension of the current ROE of 8.5 per cent and capital structure of 37 per cent equity on a final basis. The AUC commenced a new GCOC process in January 2022 to address the ROE and equity thickness for 2023 and beyond.

Performance Based Regulation

Under the 2018 to 2022 second generation PBR framework, electricity and natural gas distribution utility rates are adjusted by a formula that estimates annual inflation and assumes productivity improvements.

	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 recovered through a "Type I" K Factor
ROE Used for Going-in Rates	• 8.5% • + 0.5% ROE ECM achieved from PBR First Generation added to 2018 and 2019
Efficiency Carry-over Mechanism (ECM)	ECM up to 0.5% additional ROE for the years 2023 and 2024 based on certain criteria
Reopener	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
ROE Used for Reopener Calculation	2018: 8.5% excluding impact of ECM 2019: 8.5% excluding impact of ECM 2020 - 2022: 8.5%

Common Matters

2021 Rate Relief Application

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. On June 18, 2021, the AUC issued a decision approving the requested rate relief, but directed CU Inc. to collect the 2021 deferred amounts commencing January 1, 2022, over a short duration, without exceeding a prescribed maximum increase in any year during the collection process. CU Inc. filed its 2022 PBR Rates applications on September 10, 2021, requesting recovery over the years 2022 and 2023 for Electricity Distribution and full recovery in 2022 for Natural Gas Distribution. The AUC issued its decisions in December 2021, approving the 2022 PBR rates for Electricity Distribution and Natural Gas Distribution as filed.

Distribution Regulatory Framework - Post 2022

On June 18, 2021, the AUC issued a decision providing direction regarding the 2023 COS application process. Each distribution utility is to present its application using an AUC-developed template with a prescribed minimum level of detail. On November 15, 2021, Electricity Distribution filed a 2023 COS application requesting, among other things, approval of a new grid modernization capital program to ensure that the grid can safely and reliably accommodate changing customer behaviours associated with decarbonization. On December 15, 2021, Natural Gas Distribution filed a 2023 COS application which includes a request for approval of a new capital program for the introduction of hydrogen into its distribution system in order to meet government-mandated net-zero emissions targets. Decisions from the AUC are expected in the third quarter of 2022.

On June 30, 2021, the AUC issued a decision relating to the Evaluation of Performance-Based Regulation in Alberta. The Commission determined that PBR has achieved many of the set principle objectives and that a third PBR term (PBR3) will commence in 2024 after a one year COS rebasing in 2023. A future generic proceeding will be initiated in the third quarter of 2022 to determine the parameters of the third generation PBR plan, including a review of incremental capital funding provisions, the inflation (I) and productivity (X) factors, and consideration of an earnings sharing mechanism.

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. Electricity Transmission filed its compliance filing on April 19, 2021 and on September 1, 2021, the AUC issued a decision which determined Electricity Transmission's final revenue requirement for 2020 and 2021. The impact to 2021 adjusted earnings as a result of this decision included a decrease of $4 million, all of which relates to prior periods.

2018-2019 General Tariff Application

On June 29, 2021, the AUC issued a decision on the 2018-2019 GTA Compliance Filing which determined Electricity Transmission's final revenue requirement for 2018 and 2019. The impact of this decision is a decrease to 2021 adjusted earnings of $8 million, all of which relates to prior periods.

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. This proceeding is to determine whether ATCO Electric failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the 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. This proceeding will also determine any future remedies that may be required.

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of $14 million (after-tax) due to the potential outcome of the proceeding. As this proceeding is not in the normal course of business, these costs have been excluded from adjusted earnings.

NATURAL GAS TRANSMISSION

Pioneer Pipeline Acquisition

In the third quarter of 2020, Natural Gas Transmission entered into an agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation, subject to customary conditions including regulatory approvals by the AUC and Alberta Energy Regulator.

The 131-km natural gas pipeline runs from the Drayton Valley area to the Wabamun area west of Edmonton. On June 15, 2021, the AUC issued a decision approving the acquisition of the pipeline and associated integration costs, totaling $265 million, and the corresponding revenue requirement for 2021 to be included in Natural Gas Transmission's rates.

Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission will transfer to Nova Gas Transmission Ltd. (NGTL) the 30-km segment of pipeline that is located in the NGTL footprint for approximately $65 million.

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 is expected to close in the first quarter of 2022. The Pioneer Pipeline has been incorporated into NGTL's and CU Inc.'s Alberta regulated natural gas transmission systems to provide reliable natural gas supply to TransAlta's power generating units at Sundance and Keephills, facilitating the conversion of these coal plants to cleaner-burning natural gas.

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

In June 2020, Natural Gas Transmission filed a GRA for the period 2021-2023. An AUC 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. On June 15, 2021, the AUC approved the acquisition of the Pioneer Pipeline including the associated integrated costs. On January 12, 2022, the AUC approved Natural Gas Transmission's application reflecting the acquisition of Pioneer Pipeline in its 2021-2023 revenue requirement.

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 2021 Sustainability Report, which will be published in May 2022, will focus 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 their 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 2021 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 2021 Sustainability Report, Sustainability Framework Reference Document, Corporate Governance, materiality assessment, and additional details and other disclosures will be available on our website at www.canadianutilities.com.

Climate Change and Energy Transition

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

POLICY/REGULATORY UPDATE

ATCO actively and constructively works with all levels of government to advocate for enabling policy and regulation, and to identify barriers that impede cost-effective, economy-wide decarbonization. ATCO participates in a wide number of discussions, and the following are examples of where we are focusing our efforts.

Carbon Pricing/Output-Based Pricing Systems

In April 2021, the carbon price in Canada increased from $30 to $40 per tonne, and by 2022 it is expected to reach $50 per tonne. In December 2020, the Government of Canada announced their plan on climate change, proposing to increase the carbon price by $15 per tonne each year starting in 2023, rising to $170 per tonne by 2030.

In December 2021, the Government of Alberta, confirmed that the Technology, Innovation and Emissions Reduction (TIER) regulation will increase from $40 per tonne in 2021 to $50 per tonne in 2022, meeting the federal government's stringency requirements for the emission sources they cover. Accordingly, the federal fuel charge continues to apply in Alberta, but not the federal Output-Based Pricing System. In the future, as carbon price increases and new updated initiatives are put in place by the federal government, TIER will also need to be updated to meet the federal government's stringency requirements.

Net-Zero Emissions Accountability Act

On June 29, 2021, the Net-Zero Emissions Accountability Act came into effect outlining the Government of Canada's commitment to achieve net-zero GHG emissions by 2050, as well as a 2030 target under the Paris Agreement to reduce GHG emissions by 40 to 45 per cent from 2005 levels. The Act establishes a legally binding process to set five-year national emissions-reduction targets, with the 2030 plan due by the end of March 2022. The Act also requires national emissions reduction targets for 2035, 2040, and 2045, ten years in advance, with credible, science-based emissions reduction plans to achieve it.

The Government of Canada is currently consulting on initiatives in early 2022 as part of their commitments to the emission-reduction targets. If these initiatives move forward, it may create both opportunities and challenges directly and indirectly for CU Inc. Some of these initiatives include: transitioning to a net-zero emitting electricity grid by 2035; developing emission standards for different categories of vehicles and mandating a percentage of zero emission vehicles by specific dates; capping emissions from the oil and gas sector at current levels and declining at the pace to get to net zero by 2050; and developing a plan to reduce methane emissions across the broader Canadian economy in support of the Global Methane Pledge and Canada's climate plan goals to reduce oil and gas methane emissions by at least 75 percent below 2012 levels by 2030.

Methane Reductions

In December 2020, Alberta reached equivalency with federal methane regulations to reduce methane emissions by 40 to 45 per cent from 2012 levels by 2025. CU Inc. continues to implement programs to reduce or eliminate fugitive and venting emissions in our Natural Gas Transmission and Distribution businesses.

Clean Fuel Standards

In July 2021, the Government of Canada announced that the scope of the Clean Fuel Standards (CFS) was further refined to cover only gasoline and diesel liquid fossil fuels used predominately in transportation (with an exemption for diesel used in space heating). The regulations are expected to come into effect in late 2022.

Hydrogen Roadmap

In December 2020, the Government of Canada released their Hydrogen Strategy for Canada. In November 2021, the Government of Alberta released the Alberta Hydrogen Roadmap outlining the Government's approach to developing hydrogen use and production in Alberta. The Hydrogen Roadmap is an action plan that integrates hydrogen with the province's existing energy infrastructure. It is a key part of Alberta's Recovery Plan and will be implemented in a phased approach. In the first phase, Alberta will establish policy foundations, close technology gaps with research and innovation, reduce the carbon intensity of existing hydrogen production, and deploy clean hydrogen into end-use markets. The second phase will focus on growth and commercialization. These actions will be implemented by working closely with partner agencies, federal, provincial and municipal governments, industries and other key partners and stakeholders.

ENERGY TRANSITION HIGHLIGHTS

CU Inc. continues to build its renewable energy portfolio and enable customers to integrate renewable energy options. Renewable energy initiatives are discussed in the "Recent Developments" section, in this MD&A, and include the example highlighted below.

In August 2021, the Vuntut Gwitchin First Nation and CU Inc. completed Canada's most northerly off-grid solar project, reducing diesel use by 189,000 litres annually in Old Crow, Yukon and providing the community with clean energy for decades to come.

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.

Category/Driver		Challenges	Opportunities	Mitigation Options/ Measures
Transitional	**Policy/Regulatory**	Operations in several jurisdictions subject to emissions limiting regulations Aggressive shifts in policy which do not allow for transition in an effective, affordable manner	Continued fuel switching to lower-emitting options Coal-to-gas electricity generation conversions by other companies present opportunities for increased demand for natural gas transmission infrastructure investment in the near to medium term Electricity grid modernization Hydrogen economy development	Active participation in policy development, industry groups, and regulatory discussions Business diversification Hydrogen research and projects
	Market	Changes in carbon policy, costs of operations, and commodity prices Changing customer behaviour	Increasing demand for lower-emitting technologies Hydrogen market development Distributed energy solutions	Participation in carbon markets Business diversification
	Technology	Replacement of current products/services with lower-emitting options Prosumer movement may affect energy load profiles in the future	A transition to lower-emitting energy systems provides opportunities to utilize expertise in: generation, integration and delivery of new energy sources including hydrogen, renewable natural gas, EV networks; and transmission and distribution infrastructure to ensure energy network reliability and security	Providing a suite of lower-emitting technology solutions so our customers can pick the right solutions for their unique situation
	Reputational	Public perception of carbon risk	Increase in demand for trusted long-term partners to deliver lower-emitting solutions	Transparent reporting Authentic engagement and collaboration
Physical	**Physical**	Extreme weather events Long-term changes in temperature and weather patterns	Climate change mitigation and adaptation Rapidly deployable structures and logistics services	Climate change resiliency efforts Emergency Response & Preparedness plans and training

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the fourth quarter and full year of 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.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Operating costs	**402**	384	18	**1,395**	1,309	86
Depreciation and amortization	**148**	135	13	**547**	520	27
Net finance costs	**100**	94	6	**372**	368	4
Income tax expense	**44**	31	13	**122**	129	(7)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $18 million and $86 million in the fourth quarter and full year of 2021 compared to the same periods in 2020 mainly due to higher flow-through natural gas transmission costs.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $13 million in the fourth quarter of 2021 compared to the same period in 2020 mainly due to higher depreciation in Electricity Transmission as a result of a project cancellation.

Depreciation and amortization increased by $27 million for the full year of 2021 compared to the same period in 2020 mainly due to higher depreciation in Electricity Transmission as a result of a project cancellation and ongoing capital investment.

NET FINANCE COSTS

Net finance costs increased by $6 million and $4 million in the fourth quarter and full year of 2021 compared to the same periods in 2020 mainly due to lower interest expense capitalized to capital projects.

INCOME TAX EXPENSE

Income taxes were higher by $13 million in the fourth quarter of 2021 compared to the same period in 2020 mainly due to higher IFRS earnings before income taxes.

Income taxes were lower by $7 million in the full year of 2021 compared to the same period in 2020 mainly due to lower 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

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

The following table shows the current credit ratings assigned to CU Inc.

	DBRS	S&P
CU Inc.		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2

On July 30, 2021, S&P Global Ratings affirmed CU Inc.'s 'A-' long-term issuer credit rating and stable outlook.

On July 22, 2021, DBRS Limited affirmed its ‘A (high)’ long-term corporate credit rating and stable outlook on CU Inc.

LINES OF CREDIT

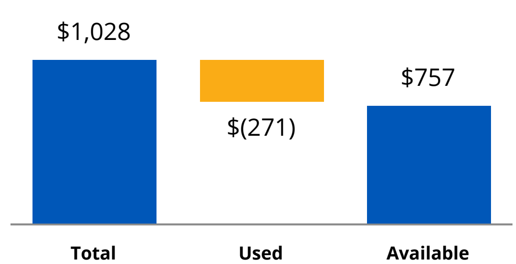
At December 31, 2021, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	206	694
Uncommitted	**128**	65	63
Total	**1,028**	271	757

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 2023 and 2024, 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, 2021,the Company's cash position was $52 million, a increase of $74 million compared to December 31, 2020. Major movements are outlined in the following table:

	Year Ended December 31		
($ millions)	**2021**	**2020**	**Change**
Cash flows from operating activities	**1,480**	1,461	19
Net issue of long-term debt	**301**	50	251
Issue of short-term debt	**206**	—	206
Cash used for capital expenditures	**(1,006)**	(806)	(200)
Dividends paid to Class A and Class B share owners	**(371)**	(420)	49
Interest paid	**(364)**	(371)	7
Redemption of equity preferred shares	**(79)**	—	(79)
Other	**(93)**	(7)	(86)
Increase (decrease) in cash position	**74**	(93)	167

Cash Flows from Operating Activities

Cash flows from operating activities of $434 million and $1,480 million in the fourth quarter and the full year of 2021 were comparable to the same periods in 2020.

Cash flows from operating activities in 2021 are 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 which will be collected from customers starting in 2022.

Cash Used for Capital Expenditures

Cash used for capital expenditures was $223 million in the fourth quarter of 2021, $8 million higher compared to the same period in 2020 mainly due to ongoing capital investment.

Cash used for capital expenditures was $1,006 million in the full year of 2021, $200 million higher compared to the same period in 2020, mainly due to the acquisition of the Pioneer Pipeline in the Natural Gas Transmission business.

Capital expenditures for the fourth quarter and full year of 2021 and 2020 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Electricity Distribution	**68**	56	12	**230**	221	9
Electricity Transmission	**25**	39	(14)	**120**	145	(25)
Natural Gas Distribution	**91**	71	20	**294**	237	57
Natural Gas Transmission	**39**	49	(10)	**362**	203	159
Total [1][2]	**223**	215	8	**1,006**	806	200

(1) Includes additions to property, plant and equipment, intangibles, and $(2) million and $6 million (2020 - $2 million and $12 million) of capitalized interest during construction for the fourth quarter and full year of 2021. The $(2) million of capitalized interest during construction recognized in the fourth quarter relates to a project cancellation.

(2) Includes $31 million and $148 million for the fourth quarter and full year of 2021 (2020 - $24 million and $69 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 February 22, 2022, aggregate issuances of debentures were $610 million.

Preferred Shares - CU Inc.

Effective June 1, 2021, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset from 2.243 per cent to 2.292 per cent for a five-year period.

Redemption of Equity Preferred Shares to Parent Company

On August 27, 2021 the Company redeemed all of the issued 4.60 per cent Series V Preferred Shares for $79 million plus accrued dividends.

SHARE CAPITAL

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

At February 22, 2022, 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, 2020 through December 31, 2021.

($ 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**

($ millions)	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Revenues	754	636	601	739
Earnings for the period	152	80	77	95
Adjusted earnings (loss)				
Electricity	78	78	70	79
Natural Gas	104	26	4	101
Corporate & Other and Intersegment Eliminations	(2)	(2)	(1)	(1)
Total adjusted earnings (1)	180	102	73	179

(1) Additional information regarding these total of segments measures is provided in the Other Financial and Non-GAAP Measures section of 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 2020, Utilities adjusted earnings were positively impacted by cost efficiencies, rate base growth, and lower income taxes. Higher earnings were partially offset by the completion of ECM funding in 2019 for Electricity Distribution and Natural Gas Distribution.

In the second quarter of 2020, adjusted earnings in the Utilities were adversely impacted by the prior period impact of the Electricity Transmission 2018-2019 GTA decision received in the second quarter of 2019, the transition to APL operating activities by Electricity Transmission with completion of project management construction activities at the end of the first quarter of 2019, and the completion of the incremental ECM funding in 2019 for Electricity Distribution and Natural Gas Distribution.

In the third quarter of 2020, adjusted earnings in the Utilities were comparable to the same period in 2019.

In the fourth quarter of 2020, adjusted earnings in the Utilities were positively impacted mainly by cost efficiencies and rate base growth.

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.

EARNINGS FOR THE PERIOD

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

- Early Termination of the Master Service Agreements for Managed IT Services
    - In the fourth quarter of 2020, the Company's parent, Canadian Utilities Limited, signed an MSA with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) (IBM) to provide managed IT services. These services were previously provided by Wipro under a ten-year MSA expiring in December 2024. The Company recognized termination costs of $52 million (after-tax) in the fourth quarter of 2020 which represents managements' best estimate of the costs to exit the Wipro MSA.
    - The transition of the managed IT services from Wipro to IBM commenced on February 1, 2021 and is now complete. In the fourth quarter and full year of 2021, the Company recognized transition costs of $6 million and $32 million (after-tax), respectively.
- AUC Enforcement Proceeding
    - In the fourth quarter of 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. This proceeding is to determine whether ATCO Electric failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the 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. This proceeding will also determine any future remedies that may be required.
    - AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of $14 million (after-tax) due to the potential outcome of the proceeding.

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 & Risk Committee, which reviews significant risks associated with future performance and growth. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

We have an established enterprise risk management process that allows us to identify and evaluate our risks by both severity of impact and probability of occurrence. Materiality thresholds are reviewed annually by the Audit & Risk Committee. Non-financial risks that may have an impact on the safety of our employees, customers or the general public and reputation risks are also evaluated. The following table outlines our current significant risks and associated mitigations.

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

Description & Context

The Company is subject to the normal risks associated with major capital projects, including cancellations, delays and cost increases. 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. For example, in Alberta the output-based Technology Innovation and Emissions Reduction Regulations replaced the federal Output-Based Pricing System as of January 1, 2020.

Risk Management Approach - Policy Risks

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

Description & Context - Physical Risks

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

Risk Management Approach - Physical Risks

The Company continues to carefully manage physical risks, including preparing for, and responding to, extreme weather events through activities such as proactive route 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 within the code.

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

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

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

Description & Context

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

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

Risk Management Approach

CU Inc.'s investments are focused on regulated utilities, creating a resilient investment portfolio. In response to the COVID-19 pandemic, CU Inc.'s Pandemic Plan was activated in February 2020. 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 has been following recommendations by local and national public health authorities across the globe to adjust operational requirements as needed to ensure a coordinated approach across CU Inc. As a result of these efforts and the Company's experience in crisis response, CU Inc. has been able to minimize the impact of the current COVID-19 pandemic on the Company's businesses and the essential services it provides to customers.

Business Risk: Pipeline Integrity		
Businesses Impacted:	**Associated Strategies:**	
• Utilities	• Operational Excellence	• Community Involvement

Description & Context

Natural Gas Transmission and Natural Gas Distribution have significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe.

Risk Management Approach

Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines or pipeline infrastructure as required to address safety, reliability, and future growth. These programs include Natural Gas Distribution and Natural Gas Transmission's Urban Pipeline Replacement and Integrity programs, and Natural Gas Distribution's Mains Replacement 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 • Financial Strength	• Operational Excellence

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. They are also subject to risk of the regulator's potential disallowance of costs incurred. Electricity Distribution and Natural Gas Distribution operate under performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery.

Risk Management Approach

The Utilities file forecasts in the rate-setting process to recover the costs of providing services and earn a fair rate of return. The determination of a fair rate of return on the common equity component of rate base is determined in a generic cost of capital proceeding in Alberta. The Utilities continuously monitor various regulatory decisions and cases to assess how they might impact the Company's regulatory applications for the recovery of costs. The Utilities are proactive in demonstrating prudence and continuously look for ways to lower operating costs while maintaining service levels.

Business Risk: Technological Transformation and Disruption		
Businesses Impacted:	**Associated Strategies:**	
• Utilities	• Growth • Financial Strength	• Operational Excellence • 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, 2021, the Company's cash position was approximately $52.0 million and there were available committed and uncommitted lines of credit of approximately $0.8 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)	**2022**	**2023**	**2024**	**2025**	**2026**	**2027 and thereafter**
Financial Liabilities						
Accounts payable and accrued liabilities	450	—	—	—	—	—
Accounts payable to parent and affiliate companies	39	—	—	—	—	—
Short-term debt	206	—	—	—	—	—
Long-term debt:						
Principal	125	107	120	—	125	7,970
Interest expense	348	351	341	333	336	6,422
	1,168	458	461	333	461	14,392
Commitments						
Purchase obligations:						
Operating and maintenance agreements	314	311	271	41	32	92
Capital expenditures	268	—	—	—	—	—
Other	6	—	—	—	—	—
	588	311	271	41	32	92
Total	1,756	769	732	374	493	14,484

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 2021 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 from 2020 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**
2021 2020	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**374**	**454**	**—**	**(2)**	**826**
	361	378	—	—	739
Adjusted earnings (loss)	**72**	**92**	**—**	**—**	**164**
	79	101	(1)	—	179
Rate-regulated activities	**(17)**	**9**	**(1)**	**—**	**(9)**
	(6)	(20)	—	—	(26)
IT Common Matters decision	**(2)**	**(2)**	**—**	**—**	**(4)**
	(5)	(4)	—	—	(9)
Transition of managed IT services	**(2)**	**(4)**	**—**	**—**	**(6)**
	(23)	(29)	—	—	(52)
Dividends on equity preferred shares of the Company	**1**	**—**	**—**	**—**	**1**
	2	1	—	—	3
AUC enforcement proceeding	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**
	(1)	1	—	—	—
Earnings (loss) for the period	**38**	**95**	**(1)**	**—**	**132**
	46	50	(1)	—	95

($ millions) 2021 / 2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Year Ended December 31 Consolidated
Revenues	**1,376**	**1,452**	**—**	**(5)**	**2,823**
	1,356	1,377	—	(3)	2,730
Adjusted earnings (loss)	**303**	**223**	**(3)**	**—**	**523**
	305	235	(6)	—	534
Rate-regulated activities	**(56)**	**(29)**	**—**	**—**	**(85)**
	(44)	(18)	—	—	(62)
IT Common Matters decision	**(8)**	**(6)**	**—**	**—**	**(14)**
	(11)	(8)	—	—	(19)
Transition of managed IT services	**(14)**	**(18)**	**—**	**—**	**(32)**
	(23)	(29)	—	—	(52)
Dividends on equity preferred shares of the Company	**5**	**4**	**—**	**—**	**9**
	6	5	—	—	11
AUC enforcement proceeding	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**
	(4)	(4)	—	—	(8)
Earnings (loss) for the period	**216**	**174**	**(3)**	**—**	**387**
	229	181	(6)	—	404

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 year	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 years	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 years 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.

For the year ended December 31, 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)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**22**	19	3	**107**	78	29
Impact of colder temperatures (2)	**4**	—	4	**—**	2	(2)
Revenues to be billed in future periods						
Deferred income taxes (3)	**(32)**	(33)	1	**(103)**	(104)	1
Distribution rate relief (4)	**(24)**	—	(24)	**(119)**	—	(119)
Impact of warmer temperatures (2)	**—**	(5)	5	**(1)**	—	(1)
Settlement of regulatory decisions and other items (5)	**21**	(7)	28	**31**	(38)	69
	(9)	(26)	17	**(85)**	(62)	(23)

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

(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) During the fourth quarter and year ended December 31, 2021, Electricity Distribution and Natural Gas Distribution recorded a decrease in earnings of $24 million and $119 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. These amounts will be recovered from customers in 2022.

(5) In 2021, Natural Gas Distribution collected $53 million related to depreciation and transmission rate riders, which was partly offset by a decrease in earnings of $28 million related to payments of transmission costs. In 2020, Electric Distribution recorded a decrease in earnings of $26 million related to payments to customers for transmission costs and capital related items.

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 amounts excluded from adjusted earnings in the fourth quarter and full year of 2021 was $4 million and $14 million (after-tax) (2020 - $9 million and $19 million).

TRANSITION OF MANAGED IT SERVICES

In the fourth quarter of 2020, the Company's parent, Canadian Utilities Limited, signed an MSA with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) (IBM) to provide managed IT services. These services were previously 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 complete.

In the fourth quarter and full year of 2021, the Company recognized termination and transition costs of $6 million and $32 million (after-tax) (2020 - $52 million and $52 million).

AUC ENFORCEMENT PROCEEDING

On November 29, 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. This proceeding is to determine whether ATCO Electric failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the 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. This proceeding will also determine any future remedies that may be required.

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In the fourth quarter and full year of 2021, the Company recognized expenses of $14 million (after-tax) due to the potential outcome of the proceeding.

OTHER

In 2020, the Company recorded other costs of $8 million (after-tax) that were not in the normal course of business. These costs related to the continued transformation and realignment of certain functions in the Company.

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

($ millions)							**Three Months Ended December 31**
2021	**CU Inc.**						
2020	**Electricity**			**Natural Gas**			**Consolidated**
	Electric Distribution	**Electric Transmission**	**Consolidated Electricity**	**Natural Gas Distribution**	**Natural Gas Transmission**	**Consolidated Natural Gas**	
Adjusted earnings	**37**	**35**	**72**	**72**	**20**	**92**	**164**
	37	42	79	79	22	101	180
Rate-regulated activities	**(25)**	**8**	**(17)**	**15**	**(6)**	**9**	**(8)**
	(11)	5	(6)	(12)	(8)	(20)	(26)
IT Common Matters decision	**(1)**	**(1)**	**(2)**	**(2)**	**—**	**(2)**	**(4)**
	(3)	(2)	(5)	(3)	(1)	(4)	(9)
Transition of managed IT services	**(1)**	**(1)**	**(2)**	**(4)**	**—**	**(4)**	**(6)**
	(16)	(7)	(23)	(25)	(4)	(29)	(52)
Dividends on equity preferred shares of the Company	**1**	**—**	**1**	**—**	**—**	**—**	**1**
	1	1	2	—	1	1	3
AUC enforcement proceeding	**—**	**(14)**	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	—	(1)	(1)	—	1	1	—
Earnings for the period	**11**	**27**	**38**	**81**	**14**	**95**	**133**
	8	38	46	39	11	50	96

($ millions)							Year Ended December 31
2021	CU Inc.						
2020	Electricity			Natural Gas			Consolidated
	Electric Distribution	Electric Transmission	Consolidated Electricity	Natural Gas Distribution	Natural Gas Transmission	Consolidated Natural Gas	
Adjusted earnings	**151**	**152**	**303**	**142**	**81**	**223**	**526**
	131	174	305	146	89	235	540
Rate-regulated activities	**(76)**	**20**	**(56)**	**(9)**	**(20)**	**(29)**	**(85)**
	(54)	10	(44)	10	(28)	(18)	(62)
IT Common Matters decision	**(4)**	**(4)**	**(8)**	**(5)**	**(1)**	**(6)**	**(14)**
	(6)	(5)	(11)	(6)	(2)	(8)	(19)
Transition of managed IT services	**(10)**	**(4)**	**(14)**	**(16)**	**(2)**	**(18)**	**(32)**
	(16)	(7)	(23)	(25)	(4)	(29)	(52)
Dividends on equity preferred shares of the Company	**2**	**3**	**5**	**3**	**1**	**4**	**9**
	2	4	6	3	2	5	11
AUC enforcement proceeding	**—**	**(14)**	**(14)**	**—**	**—**	**—**	**(14)**
	—	—	—	—	—	—	—
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	(2)	(2)	(4)	(4)	—	(4)	(8)
Earnings for the period	**63**	**153**	**216**	**115**	**59**	**174**	**390**
	55	174	229	124	57	181	410

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 2021 Consolidated Financial Statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 22 of the 2021 Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes judgments and estimates that could significantly affect how policies are applied, amounts in the consolidated financial statements are reported, and contingent assets and liabilities are disclosed. Most often these judgments and estimates concern matters that are inherently complex and uncertain. Judgments and estimates are reviewed on an ongoing basis; changes to accounting estimates are recognized prospectively.

ACCOUNTING CHANGES

At December 31, 2021, 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 2022 Consolidated Financial Statements once adopted.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2021, 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, 2021.

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 December 31, 2021, 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, 2021, 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, 2021.

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 general strategic plans and targets, including with respect to project and program implementations; projected expenses in connection with the described Alberta Utilities Commission proceedings; reducing GHG emissions; 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 (including as may be affected by the COVID-19 pandemic); 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; 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 2021 Consolidated Financial Statements and MD&A for the year ended December 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

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 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 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.

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

GAAP means Canadian generally accepted accounting principles.

GHG means greenhouse gas.

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.

PBR means Performance Based Regulation.

APPENDIX 1

FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2021 and 2020 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2021**	**2020**
Revenues	**826**	739
Costs and expenses		
Salaries, wages and benefits	**(69)**	(58)
Energy transmission and transportation	**(68)**	(57)
Plant and equipment maintenance	**(56)**	(48)
Fuel costs	**(3)**	(3)
Purchased power	**(26)**	(26)
Depreciation and amortization	**(148)**	(135)
Franchise fees	**(76)**	(64)
Property and other taxes	**(17)**	(15)
Other	**(87)**	(113)
	(550)	(519)
Operating profit	**276**	220
Interest expense	**(100)**	(94)
Net finance costs	**(100)**	(94)
Earnings before income taxes	**176**	126
Income taxes	**(44)**	(31)
Earnings for the period	**132**	95

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2021	2020
Operating activities		
Earnings for the period	**132**	95
Adjustments to reconcile earnings to cash flows from operating activities	**299**	339
Changes in non-cash working capital	**3**	(23)
Cash flows from operating activities	**434**	411
Investing activities		
Additions to property, plant and equipment	**(200)**	(180)
Additions to intangibles	**(25)**	(33)
Changes in non-cash working capital	**(14)**	1
Other	**(1)**	—
Cash flows used in investing activities	**(240)**	(212)
Financing activities		
Issue of short-term debt	**206**	—
Issue of long-term debt	**1**	—
Repayment of long-term debt	**(160)**	(100)
Repayment of lease liabilities	**—**	(1)
Dividends paid on equity preferred shares	**(1)**	(3)
Dividends paid to Class A and Class B share owner	**(109)**	(335)
Interest paid	**(105)**	(110)
Other	**(2)**	—
Cash flows used in financing activities	**(170)**	(549)
Increase (decrease) in cash position	**24**	(350)
Beginning of period	**28**	328
End of period	**52**	(22)

CU INC.
An ATCO Company

CU INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the consolidated financial statements of CU Inc. (the Company) in accordance with International Financial Reporting Standards, which include amounts based on estimates and judgments. Management is also responsible for the preparation of the Management's Discussion and Analysis and ensures that it is consistent with the consolidated financial statements.

Management has established internal accounting and financial reporting control systems, which are subject to periodic review by the Company's internal auditors, to meet its responsibility for reliable and accurate reporting. Integral to these control systems are a code of ethics and management policies that provide guidance and direction to employees, as well as a system of corporate governance that provides oversight to the Company's operating, reporting and risk management activities.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the Audit Committee. The Audit Committee is comprised entirely of independent Directors. The Audit Committee meets regularly with management and the independent auditors to review significant accounting and financial reporting matters, to assure that management is carrying out its responsibilities and to review and approve the consolidated financial statements.

PricewaterhouseCoopers LLP, our independent auditors, are engaged to perform an audit of the consolidated financial statements and expresses a professional opinion on the results. The Independent Auditor's Report to the Share Owner appears on the following page. PricewaterhouseCoopers LLP have full and independent access to the Audit Committee and management to discuss their audit and related matters.

[Original signed by N.C. Southern]	[Original signed by B.P. Shkrobot]
Chair & Chief Executive Officer	Executive Vice President & Chief Financial Officer

February 23, 2022

Independent auditor's report

To the Share Owner of CU Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of CU Inc. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of earnings for the years ended December 31, 2021 and 2020;
- the consolidated statements of comprehensive income for the years ended December 31, 2021 and 2020;
- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of changes in equity for the years ended December 31, 2021 and 2020;
- the consolidated statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of unbilled revenue related to the Utilities segment *Refer to note 4 – Revenues and note 22 – Significant Judgments, Estimates and Assumptions to the consolidated financial statements.* The Company had $140 million of unbilled revenue related to the Utilities segment as at December 31, 2021. The revenue recognized by the Company includes an estimate of consumption by customers of natural gas and electricity that has not yet been billed (unbilled revenue). The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is based on historical consumption patterns. Management applies judgment to the measurement and value of the estimated consumption. We determined that this is a key audit matter due to (i) the significance of the unbilled revenue, (ii) the judgment applied by management to estimate the consumption and (iii) the significant auditor effort in performing procedures to test the estimated amount of unbilled revenue.	Our approach to addressing the matter included the following procedures, among others: • Tested the reasonableness of the estimate of unbilled revenue through evidence obtained from events occurring up to the date of the auditor's report, which included the following: — Tested a sample of billings made after December 31, 2021 and compared the relevant amounts of these billings to the corresponding estimate of unbilled revenue recorded. — Agreed the pricing applied to a sample of billings to externally published rates. • Tested the operating effectiveness of internal controls relating to unbilled revenue, including information technology (IT) general controls of the relevant IT systems that management uses for meter readings and billings.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shannon Ryhorchuk.

[Original signed by "PricewaterhouseCoopers LLP"]

Chartered Professional Accountants

Calgary, Alberta
February 23, 2022

CONSOLIDATED STATEMENTS OF EARNINGS

(millions of Canadian Dollars)	Note	Year Ended December 31 2021	2020
Revenues	4	**2,823**	2,730
Costs and expenses			
Salaries, wages and benefits		**(221)**	(215)
Energy transmission and transportation		**(266)**	(225)
Plant and equipment maintenance		**(173)**	(166)
Fuel costs		**(11)**	(11)
Purchased power		**(94)**	(92)
Depreciation and amortization	9, 10, 15	**(547)**	(520)
Franchise fees		**(263)**	(243)
Property and other taxes		**(68)**	(66)
Other	5	**(299)**	(291)
		(1,942)	(1,829)
Operating profit		**881**	901
Interest income		**1**	1
Interest expense	6	**(373)**	(369)
Net finance costs		**(372)**	(368)
Earnings before income taxes		**509**	533
Income tax expense	7	**(122)**	(129)
Earnings for the year		**387**	404

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Note	Year Ended December 31 2021	2020
Earnings for the year		**387**	404
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified to earnings:			
Re-measurement of retirement benefits [1]	13	**17**	(11)
Comprehensive income for the year		**404**	393

(1) Net of income taxes of $(5) million for the year ended December 31, 2021 (2020 - $3 million).

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(millions of Canadian Dollars)	Note	December 31 2021	2020
ASSETS			
Current assets			
Cash	18	**56**	13
Short-term advances to parent company	18, 26	**65**	65
Accounts receivable and contract assets	14	**463**	380
Trade accounts receivable from parent and affiliate companies	14, 26	**12**	13
Inventories	8	**13**	14
Prepaid expenses and other current assets	9	**79**	16
		688	501
Non-current assets			
Property, plant and equipment	9	**16,217**	15,815
Intangibles	10	**674**	602
Right-of-use assets	15	**11**	11
Other assets		**22**	23
Total assets		**17,612**	16,952
LIABILITIES			
Current liabilities			
Bank indebtedness	18	**4**	3
Short-term advances from parent company	18, 26	**65**	97
Accounts payable and accrued liabilities		**450**	405
Accounts payable to parent and affiliate companies	26	**39**	11
Lease liabilities	15	**1**	2
Provisions and other current liabilities	3	**70**	93
Short-term debt	11	**206**	–
Long-term debt	12	**125**	160
		960	771
Non-current liabilities			
Deferred income tax liabilities	7	**1,484**	1,368
Retirement benefit obligations	13	**155**	176
Customer contributions	14	**1,822**	1,727
Lease liabilities	15	**10**	9
Other liabilities		**11**	11
Long-term debt	12	**8,276**	7,941
Total liabilities		**12,718**	12,003
EQUITY			
Equity preferred shares	16	**187**	187
Equity preferred shares to parent company	16, 26	–	79
Class A and Class B share owner's equity			
Class A and Class B shares	17	**1,056**	1,056
Retained earnings		**3,651**	3,627
		4,707	4,683
Total equity		**4,894**	4,949
Total liabilities and equity		**17,612**	16,952

See accompanying Notes to Consolidated Financial Statements.

[Original signed by N.C. Southern]
DIRECTOR

[Original signed by L.M. Charlton]
DIRECTOR

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian Dollars)	Note	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
December 31, 2019		1,056	266	3,664	–	4,986
Earnings for the year		–	–	404	–	404
Other comprehensive loss		–	–	–	(11)	(11)
Losses on retirement benefits transferred to retained earnings	13	–	–	(11)	11	–
Dividends	16,17	–	–	(431)	–	(431)
Other		–	–	1	–	1
December 31, 2020		1,056	266	3,627	–	4,949
Earnings for the year		–	–	**387**	–	**387**
Other comprehensive income		–	–	–	**17**	**17**
Gains on retirement benefits transferred to retained earnings		–	–	**17**	**(17)**	–
Redemption of equity preferred shares to parent company	16	–	**(79)**	–	–	**(79)**
Dividends	16,17	–	–	**(380)**	–	**(380)**
December 31, 2021		**1,056**	**187**	**3,651**	–	**4,894**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian Dollars)	Note	Year Ended December 31 2021	2020
Operating activities			
Earnings for the year		**387**	404
Adjustments to reconcile earnings to cash flows from operating activities	18	**1,102**	1,073
Changes in non-cash working capital	18	**(9)**	(16)
Cash flows from operating activities		**1,480**	1,461
Investing activities			
Additions to property, plant and equipment		**(885)**	(716)
Additions to intangibles		**(115)**	(78)
Changes in non-cash working capital	18	**(20)**	(5)
Other	9	**(63)**	–
Cash flows used in investing activities		**(1,083)**	(799)
Financing activities			
Issue of short-term debt	11	**206**	–
Issue of long-term debt	12	**461**	150
Repayment of long-term debt	12	**(160)**	(100)
Redemption of equity preferred shares to parent company	16	**(79)**	–
Repayment of lease liabilities	15	**(2)**	(2)
Dividends paid on equity preferred shares	16	**(9)**	(11)
Dividends paid to Class A and Class B share owner	17	**(371)**	(420)
Interest paid		**(364)**	(371)
Other		**(5)**	(1)
Cash flows used in financing activities		**(323)**	(755)
Increase (decrease) in cash position		**74**	(93)
Beginning of year		**(22)**	71
End of year	18	**52**	(22)

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021

(Tabular amounts in millions of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 4th floor, West Building, 5302 Forand Street SW, Calgary, Alberta T3E 8B4. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

- Electricity (electricity transmission and distribution); and
- Natural gas (natural gas transmission and distribution).

The consolidated financial statements include the accounts of CU Inc. and its subsidiaries (see Note 23). In these financial statements, "the Company" means CU Inc. and its subsidiaries.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRIC).

The Board of Directors (Board) authorized these consolidated financial statements for issue on February 23, 2022.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on a historic cost basis, except for retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value. The Company's significant accounting policies are described in Note 27.

Certain comparative figures have been reclassified to conform to the current presentation.

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Canadian dollars. Each entity within the Company determines its own functional currency based on the primary economic environment in which it operates.

USE OF JUDGMENTS AND ESTIMATES

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 on-going basis; changes to accounting estimates are recognized prospectively. The significant judgments, estimates and assumptions are described in Note 22.

ADOPTION OF NEW ACCOUNTING INTERPRETATION

In April 2021, the IFRS Interpretations Committee published a final agenda decision with respect to recognition of certain configuration and customization expenditures related to cloud computing with retrospective application. Costs that do not meet the capitalization criteria should be expensed as incurred. Any changes resulting from the decision were required to be implemented by December 31, 2021.

The analysis of the impacts of the decision did not result in a material change to the consolidated financial statements.

3. SEGMENTED INFORMATION

SEGMENT DESCRIPTIONS AND PRINCIPAL OPERATING ACTIVITIES

The Company's operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM is comprised of the President and Chief Executive Officer, and the other members of the Executive Committee.

The accounting policies applied by the segments are the same as those applied by the Company, except for those used in the calculation of adjusted earnings. Intersegment transactions are measured at the exchange amount, as agreed to by the related parties.

Management has determined that the operating subsidiaries in the reportable segments below share similar economic characteristics, as such, they have been aggregated.

Electricity	The Electricity segment includes ATCO Electric Transmission and ATCO Electric Distribution. These businesses provide regulated electricity transmission, distribution and related infrastructure solutions in northern and central east Alberta, the Yukon and the Northwest Territories.
Natural Gas	The Natural Gas segment includes ATCO Gas and ATCO Pipelines. These businesses provide integrated natural gas transmission, distribution and related infrastructure development throughout Alberta and in the Lloydminster area of Saskatchewan.

Results by operating segment for the year ended December 31 are shown below.

2021 2020	Electricity	Natural Gas	Corporate & Other	Intersegment Eliminations	Consolidated
Revenues - external	**1,373**	**1,450**	–	–	**2,823**
	1,354	1,376	–	–	2,730
Revenues - intersegment	**3**	**2**	–	**(5)**	–
	2	1	–	(3)	–
Revenues	**1,376**	**1,452**	–	**(5)**	**2,823**
	1,356	1,377	–	(3)	2,730
Operating expenses [(1)]	**(538)**	**(862)**	–	**5**	**(1,395)**
	(513)	(799)	–	3	(1,309)
Depreciation and amortization	**(322)**	**(225)**	–	–	**(547)**
	(309)	(211)	–	–	(520)
Net finance costs	**(232)**	**(136)**	**(4)**	–	**(372)**
	(229)	(131)	(8)	–	(368)
Earnings (loss) before income taxes	**284**	**229**	**(4)**	–	**509**
	305	236	(8)	–	533
Income tax (expense) recovery	**(68)**	**(55)**	**1**	–	**(122)**
	(76)	(55)	2	–	(129)
Earnings (loss) for the year	**216**	**174**	**(3)**	–	**387**
	229	181	(6)	–	404
Adjusted earnings (loss)	**303**	**223**	**(3)**	–	**523**
	305	235	(6)	–	534
Total assets	**10,303**	**7,265**	**53**	**(9)**	**17,612**
	10,272	6,645	47	(12)	16,952
Capital expenditures [(2)]	**350**	**656**	–	–	**1,006**
	366	440	–	–	806

(1) Includes total costs and expenses, excluding depreciation and amortization expense.
(2) Includes additions to property, plant and equipment, intangibles and $6 million of interest capitalized during construction for the year ended December 31, 2021 (2020 - $12 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings for the year after adjusting for:

- the timing of revenues and expenses for rate-regulated activities;
- dividends on equity preferred shares of the Company;
- 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 used by the CODM to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the year ended December 31 is shown below.

2021 **2020**	**Electricity**	**Natural Gas**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Adjusted earnings (loss)	**303**	**223**	**(3)**	**–**	**523**
	305	235	(6)	–	534
Transition of managed IT services	**(14)**	**(18)**	**–**	**–**	**(32)**
	(23)	(29)	–	–	(52)
AUC enforcement proceeding	**(14)**	**–**	**–**	**–**	**(14)**
	–	–	–	–	–
Rate-regulated activities	**(56)**	**(29)**	**–**	**–**	**(85)**
	(44)	(18)	–	–	(62)
IT Common Matters decision	**(8)**	**(6)**	**–**	**–**	**(14)**
	(11)	(8)	–	–	(19)
Dividends on equity preferred shares of the Company	**5**	**4**	**–**	**–**	**9**
	6	5	–	–	11
Other	**–**	**–**	**–**	**–**	**–**
	(4)	(4)	–	–	(8)
Earnings (loss) for the year	**216**	**174**	**(3)**	**–**	**387**
	229	181	(6)	–	404

Transition of managed IT services

In 2020, the Company's parent, Canadian Utilities Limited, signed a Master Services Agreement (MSA) with IBM Canada Ltd. (IBM) (subsequently novated to Kyndryl Canada Ltd.) to provide managed information technology (IT) services. These services were previously 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 was complete at December 31, 2021.

In 2020, the Company recognized an onerous contract provision of $66 million ($52 million after-tax), which represents management's best estimate of the costs to exit the Wipro MSA. The provision is included in provisions and other current liabilities in the consolidated balance sheets. The onerous contract provision is not in the normal course of business and has been excluded from adjusted earnings.

In addition, the Company recognized transition costs of $42 million ($32 million after-tax) in 2021. The transition costs related to 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.

Alberta Utilities Commission (AUC) enforcement proceeding

On November 29, 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. This proceeding is to determine whether ATCO Electric Transmission failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the 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. This proceeding will also determine any future remedies that may be required.

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of $16 million ($14 million after-tax) related to the potential outcome of the proceeding. As this proceeding is not in the normal course of business, these costs have been excluded from adjusted earnings.

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas and ATCO Pipelines 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
1.	Additional revenues billed in current year	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.
2.	Revenues to be billed in future years	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.
3.	Regulatory decisions received	Regulatory decisions received which relate to current and prior years.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior years 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.
4.	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.

For the year ended December 31, the significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS are as follows:

	2021	2020
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**107**	78
Impact of colder temperatures (2)	**–**	2
Revenues to be billed in future periods		
Deferred income taxes (3)	**(103)**	(104)
Distribution rate relief (4)	**(119)**	–
Impact of warmer temperatures (2)	**(1)**	–
Settlement of regulatory decisions and other items (5)	**31**	(38)
	(85)	(62)

(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 years.

(2) ATCO 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 the normal in the current year are refunded to or recovered from customers in future years.

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

(4) In 2021, in response to the ongoing COVID-19 Pandemic, ATCO Electric Distribution and ATCO Gas Distribution applied for interim rate relief for customers to hold current distribution base rates in place. Following approval by the AUC, ATCO Electric Distribution and ATCO Gas Distribution recorded a decrease in earnings of $119 million. This will be recovered from customers in 2022 and 2023.

(5) In 2021, ATCO Gas Distribution collected $53 million related to depreciation and transmission rate riders, which was partly offset by a decrease in earnings of $28 million related to payments of transmission costs. In 2020, ATCO Electric Distribution recorded a decrease in earnings of $26 million related to payments to customers for transmission costs and capital related items.

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 2021 was $14 million (2020 - $19 million).

Other

In 2020, the Company recorded other costs of $8 million, after tax, that were not in the normal course of business. These costs related to the continued transformation and realignment of certain functions in the Company.

4. REVENUES

The Company disaggregates revenues based on the nature of revenue streams. The disaggregation of revenues by each operating segment for year ended December 31 is shown below:

2021 2020	Electricity (1)	Natural Gas (1)	Total
Revenue Streams			
Rendering of Services			
Distribution services	**548**	**877**	**1,425**
	531	818	1,349
Transmission services	**712**	**308**	**1,020**
	716	296	1,012
Customer contributions	**33**	**20**	**53**
	34	21	55
Franchise fees	**34**	**229**	**263**
	31	212	243
Total rendering of services	**1,327**	**1,434**	**2,761**
	1,312	1,347	2,659
Other	**46**	**16**	**62**
	42	29	71
Total	**1,373**	**1,450**	**2,823**
	1,354	1,376	2,730

(1) For the year ended December 31, 2021, Electricity and Natural Gas segments include $140 million of unbilled revenue (2020 - $115 million). At December 31, 2021, $140 million of the unbilled revenue is included in trade accounts receivable and contract assets (2020 - $115 million).

5. OTHER COSTS AND EXPENSES

In addition to rent, utilities, and goods and services such as professional fees, contractor costs, technology related expenses, advertising and other general and administrative expenses, other costs and expenses included costs related to the transition of managed information technology services of $42 million in 2021 (2020 - $66 million) (see Note 3).

6. INTEREST EXPENSE

Interest expense primarily arises from interest on long-term debentures. The components of interest expense are summarized below.

	2021	2020
Long-term debt	**367**	371
Retirement benefits interest expense	**6**	7
Amortization of deferred financing charges	**2**	2
Other	**4**	1
	379	381
Less: interest capitalized *(Notes 9, 10)*	**(6)**	(12)
	373	369

Borrowing costs capitalized to property, plant and equipment and intangibles during 2021 were calculated by applying a weighted average interest rate of 4.43 per cent (2020 - 4.53 per cent) to expenditures on qualifying assets.

7. INCOME TAXES

INCOME TAX EXPENSE

The income tax rate for 2021 is 23.0 per cent (2020 - 24.0 per cent).

The components of income tax expense for the year ended December 31 are summarized below.

	2021	2020
Current income tax expense		
Expenses for the year	**14**	35
Adjustment in respect of prior years	**(3)**	(2)
	11	33
Deferred income tax expense		
Reversal of temporary differences	**106**	88
Change in income taxes resulting from decrease in provincial corporate tax rate	**–**	5
Adjustment in respect of prior years	**5**	3
	111	96
	122	129

The reconciliation of statutory and effective income tax expense for the year ended December 31 is as follows:

		2021		2020
Earnings before income taxes	**509**	**%**	533	%
Income taxes, at statutory rates	**117**	**23.0**	128	24.0
Change in income taxes resulting from decrease in provincial corporate tax rate	**–**	**–**	5	0.9
Investment tax credit	**2**	**0.4**	–	–
Other	**3**	**0.6**	(4)	(0.7)
	122	**24.0**	129	24.2

INCOME TAX ASSETS AND LIABILITIES

Income tax assets and liabilities in the consolidated balance sheets at December 31 are summarized below.

	Balance Sheet Presentation	2021	2020
Income tax assets			
Current	Prepaid expenses and other current assets	**1**	–
Income tax liabilities			
Current	Provisions and other current liabilities	–	26
Deferred	Deferred income tax liabilities	**1,484**	1,368

DEFERRED INCOME TAXES

The changes in deferred income tax liabilities are as follows:

Movements	Property, Plant and Equipment	Intangibles	Reserves	Tax Loss Carry Forwards and Tax Credits	Retirement Benefit Obligations	Other	Total
December 31, 2019	1,264	86	–	(54)	(36)	16	1,276
Charge (credit) to earnings	123	4	(2)	(4)	(2)	(28)	91
Credit to other comprehensive income	–	–	–	–	(3)	–	(3)
Change in income taxes resulting from decrease in provincial corporate tax rate	–	–	–	5	–	–	5
Other	–	–	–	–	–	(1)	(1)
December 31, 2020	1,387	90	(2)	(53)	(41)	(13)	1,368
Charge (credit) to earnings	**114**	**1**	–	**3**	**2**	**(9)**	**111**
Charge to other comprehensive income	–	–	–	–	**5**	–	**5**
December 31, 2021	**1,501**	**91**	**(2)**	**(50)**	**(34)**	**(22)**	**1,484**

The Company does not expect any of its deferred income tax liabilities to reverse within the next twelve months.

At December 31, 2021, the Company had $215 million of non-capital tax losses and credits which expire between 2035 and 2041. The Company recognized deferred income tax assets of $50 million for these losses and credits.

8. INVENTORIES

Inventories at December 31 are comprised of:

	2021	2020
Natural gas and fuel in storage	**9**	9
Raw materials and consumables	**4**	5
	13	14

For the year ended December 31, 2021, inventories of $2 million were used in operations and expensed (2020 - $2 million).

9. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2019	18,725	614	484	660	20,483
Additions	–	–	740	(1)	739
Transfers	849	6	(886)	31	–
Retirements and disposals	(75)	(17)	–	(21)	(113)
Changes to asset retirement costs	1	–	–	–	1
December 31, 2020	19,500	603	338	669	21,110
Additions	–	**1**	**903**	**1**	**905**
Transfers	**880**	**12**	**(917)**	**25**	–
Retirements and disposals	**(110)**	–	–	**(18)**	**(128)**
December 31, 2021	**20,270**	**616**	**324**	**677**	**21,887**
Accumulated depreciation					
December 31, 2019	4,477	158	–	298	4,933
Depreciation	421	13	–	41	475
Retirements and disposals	(75)	(17)	–	(21)	(113)
December 31, 2020	4,823	154	–	318	5,295
Depreciation	**445**	**17**	–	**41**	**503**
Retirements and disposals	**(110)**	–	–	**(18)**	**(128)**
December 31, 2021	**5,158**	**171**	–	**341**	**5,670**
Net book value					
December 31, 2020	14,677	449	338	351	15,815
December 31, 2021	**15,112**	**445**	**324**	**336**	**16,217**

The additions to property, plant and equipment included $2 million of interest capitalized during construction for the year ended December 31, 2021 (2020 - $9 million).

PIONEER NATURAL GAS PIPELINE ACQUISITION

Utilities Segment

In 2020, ATCO Gas and Pipelines Ltd., a wholly owned subsidiary of the Company, entered into an agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation, subject to customary conditions including regulatory approvals by the Alberta Utilities Commission (AUC) and Canada Energy Regulator.

The 131 km natural gas pipeline runs from the Drayton Valley area to the Wabamum area west of Edmonton. On June 15, 2021, the AUC issued a decision approving the acquisition of the Pioneer Pipeline and associated costs, totaling $265 million.

Consistent with the geographic areas defined in the Integration Agreement, ATCO Gas and Pipelines Ltd. will transfer to Nova Gas Transmission Ltd. (NGTL) the 30 km segment of pipeline that is located in the NGTL footprint for approximately $65 million.

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 is expected to close in the first quarter of 2022. As a result, $197 million was recorded in additions to property, plant and equipment in the consolidated balance sheets and the consolidated statements of cash flows. The costs incurred for the segment of the pipeline that will be sold to NGTL, amounting to $64 million, were recorded as assets held-for-sale in prepaid expenses and other current assets in the consolidated balance sheets, and were included in other investing activities in the consolidated statements of cash flows. Pipeline integration costs of $1 million are expected to be incurred in the first half of 2022, which would result in total costs of $262 million, $3 million less than the approved amount of $265 million.

ATCO Gas and Pipelines Ltd. applied the optional IFRS 3 *Business combinations* concentration test to the acquisition of the Pioneer Pipeline, which has resulted in the acquired asset being accounted for as an asset acquisition.

10. INTANGIBLES

Intangible assets consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights. A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Computer Software	Land Rights	Work-in-Progress	Other	Total
Cost					
December 31, 2019	444	382	79	9	914
Additions	–	–	78	–	78
Transfers	49	25	(74)	–	–
Retirements	(177)	–	–	–	(177)
December 31, 2020	316	407	83	9	815
Additions	**–**	**–**	**115**	**–**	**115**
Transfers	**45**	**24**	**(69)**	**–**	**–**
Retirements	**(31)**	**–**	**–**	**–**	**(31)**
December 31, 2021	**330**	**431**	**129**	**9**	**899**
Accumulated amortization					
December 31, 2019	280	53	–	4	337
Amortization	46	7	–	–	53
Retirements	(177)	–	–	–	(177)
December 31, 2020	149	60	–	4	213
Amortization	**38**	**5**	**–**	**–**	**43**
Retirements	**(31)**	**–**	**–**	**–**	**(31)**
December 31, 2021	**156**	**65**	**–**	**4**	**225**
Net book value					
December 31, 2020	167	347	83	5	602
December 31, 2021	**174**	**366**	**129**	**5**	**674**

The additions to intangibles include interest capitalized during construction of $4 million for the year ended December 31, 2021 (2020 - $3 million).

11. SHORT-TERM DEBT

At December 31, 2021, the Company had $206 million of commercial paper outstanding at an effective interest rate of 0.32 per cent, maturing in January 2022, issued under a long-term committed credit line (Note 20) (2020 - nil). The outstanding balance was fully repaid in January 2022.

The commercial paper is supported by the Company's long-term committed credit facilities.

12. LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	Effective Interest Rate	2021	2020
CU Inc. debentures - unsecured (1)	4.410% (2020 - 4.487%)	**8,440**	8,140
CU Inc. other long-term obligation, due June 2023 - unsecured (2)	2.45% (2020 - 2.45%)	**7**	6
Less: deferred financing charges		**(46)**	(45)
		8,401	8,101
Less: amounts due within one year		**(125)**	(160)
		8,276	7,941

(1) Interest rate is the average effective interest rate weighted by principal amounts outstanding.

(2) During 2021, the expiry date of the CU Inc. other long-term obligation was extended from June 2022 to June 2023.

DEBENTURE ISSUANCES AND REPAYMENTS

On September 3, 2021, the Company issued $460 million of 3.174 per cent debentures maturing on September 5, 2051. The Company also repaid $160 million of 4.801 per cent debentures on November 22, 2021.

On September 28, 2020, the Company issued $150 million of 2.609 per cent debentures maturing on September 28, 2050. The Company also repaid $100 million of 11.77 per cent debentures on November 30, 2020.

13. RETIREMENT BENEFITS

The Company, together with Canadian Utilities Limited and its subsidiary companies, maintains registered defined benefit or defined contribution pension plans for most of its employees. It also provides other post-employment benefits, principally health, dental and life insurance, for retirees and their dependents. The defined benefit pension plans provide for pensions based on employees' length of service and final average earnings. As of 1997, new employees automatically participate in the defined contribution pension plan.

The Company, together with Canadian Utilities Limited and its subsidiary companies, also maintains non-registered, non-funded defined benefit pension plans for certain officers and key employees.

Information about the plans as a whole, in aggregate, can be found in the Canadian Utilities Limited consolidated financial statements for the year ended December 31, 2021.

Contributions to the registered group defined benefit pension plan, which is accounted for as a defined contribution pension plan, are expensed as paid. Other post-employment benefit (OPEB) and non-registered defined benefit pension plans, which the Company funds out of general revenues, are administered on a combined basis with Canadian Utilities Limited and its subsidiary companies. For non-registered defined benefit pensions, the Company is assessed a percentage of the total cost of the plans.

THE COMPANY'S BENEFIT PLANS

Information about the Company's participation in the group benefit plans is as follows:

	2021		2020	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Defined benefit plans cost	**14**	**5**	20	5
Defined contribution plans cost	**18**	**–**	18	–
Total cost	**32**	**5**	38	5
Less: Capitalized	**18**	**3**	22	3
Net cost recognized	**14**	**2**	16	2
Accrued benefit obligations				
Beginning of year	61	115	53	104
Defined benefit plan cost	**14**	**5**	20	5
Benefit payments	**(6)**	**(3)**	(5)	(4)
Contributions to defined benefit plans	**(9)**	**–**	(11)	–
Actuarial (gains) losses [1]	**(9)**	**(13)**	4	10
End of year	**51**	**104**	61	115

(1) Actuarial gains net of income taxes were $17 million for the year ended December 31, 2021 (2020 - losses of $11 million).

WEIGHTED AVERAGE ASSUMPTIONS

The significant assumptions used to determine the benefit plan cost and accrued benefit obligation were as follows:

	2021		2020	
	Pension Benefit Plans	OPEB Plans	Pension Benefit Plans	OPEB Plans
Benefit plan cost				
Discount rate for the year	**2.58 %**	**2.58 %**	3.10 %	3.10 %
Average compensation increase for the year	**2.25 %**	**n/a**	2.50 %	n/a
Accrued benefit obligations				
Discount rate at December 31	**3.16 %**	**3.16 %**	2.58 %	2.58 %
Long-term inflation rate	**2.00 %**	**n/a**	2.00 %	n/a
Health care cost trend rate:				
Drug costs [1]	**n/a**	**5.05 %**	n/a	5.11 %
Other medical costs	**n/a**	**4.00 %**	n/a	4.00 %
Dental costs	**n/a**	**4.00 %**	n/a	4.00 %

(1) The Company uses a graded drug cost trend rate, which assumes a 5.05 per cent rate per annum, grading down to 4.00 per cent in and after 2040.

FUNDING

An actuarial valuation for funding purposes as of December 31, 2020 was completed in 2021 for the registered defined benefit pension plans. The estimated contribution for 2022 is $9 million. The next actuarial valuation for funding purposes must be completed as of December 31, 2023.

14. BALANCES FROM CONTRACTS WITH CUSTOMERS

Balances from contracts with customers are comprised of accounts receivable and contract assets and customer contributions.

ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

At December 31, accounts receivable and contract assets are as follows:

	2021	2020
Trade accounts receivable and contract assets	**446**	376
Other accounts receivable	**17**	4
Accounts receivable and contracts assets	**463**	380
Trade accounts receivable from parent and affiliate companies	**12**	13

A reconciliation of the changes in trade accounts receivable and contract assets and trade accounts receivable from parent and affiliate companies during the year ended December 31 are as follows:

	Trade accounts receivable and contract assets	Trade accounts receivable from parent and affiliate companies	Total
December 31, 2019	350	14	364
Revenue from satisfied performance obligations	2,651	24	2,675
Credit loss allowance	(1)	–	(1)
Payments and settlements	(2,624)	(25)	(2,649)
December 31, 2020	376	13	389
Revenue from satisfied performance obligations	**2,752**	**18**	**2,770**
Payments and settlements	**(2,682)**	**(19)**	**(2,701)**
December 31, 2021	**446**	**12**	**458**

CUSTOMER CONTRIBUTIONS

Certain additions to property, plant and equipment are made with the assistance of non-refundable cash contributions from customers. These contributions are made when the estimated revenue is less than the cost of providing service or where the customer needs special equipment. Since these contributions will provide customers with on-going access to the supply of natural gas or electricity, they represent deferred revenues and are recognized in revenues over the life of the related asset.

Changes in customer contributions balance are summarized below.

	2021	2020
Beginning of year	1,727	1,705
Receipt of customer contributions	**148**	69
Amortization	**(53)**	(55)
Transfers from other liabilities	**–**	8
End of year	**1,822**	1,727

15. LEASES

RIGHT-OF-USE ASSETS

The Company's right-of-use assets mainly relate to the lease of land and buildings. A reconciliation of the changes in the carrying amount of right-of-use assets for the year ended December 31 is as follows:

	2021	2020
Cost		
Beginning of year	14	8
Additions	**2**	7
Disposals	**–**	(1)
End of year	**16**	14
Accumulated depreciation		
Beginning of year	3	2
Depreciation	**2**	2
Disposals	**–**	(1)
End of year	**5**	3
Net book value	**11**	11

LEASE LIABILITIES

The Company has recognized lease liabilities in relation to the arrangements to lease land and buildings. A reconciliation of movements in lease liabilities during the year ended December 31 is as follows:

	Note	2021	2020
Beginning of year		11	6
Additions		**2**	7
Lease payments		**(2)**	(2)
End of year		**11**	11
Less: amounts due within one year		**(1)**	(2)
End of year		**10**	9

During the years ended December 31, 2021 and 2020, interest expense on lease liabilities was less than a million.

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

In one year or less	**1**
In more than one year, but not more than five years	**3**
In more than five years	**23**
	27

During the year ended December 31, 2021, $3 million was expensed in relation to low-value leases, $1 million was expensed in relation to short-term leases, and no expenses were incurred in relation to leases with variable payments (2020 - $4 million was expensed in relation to low-value leases, less than a million in relation to short-term leases, and nil in relation to leases with variable payments).

16. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

EQUITY PREFERRED SHARES

Authorized and issued

Authorized: an unlimited number of Preferred Shares, issuable in series.

	2021		2020	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Cumulative Redeemable Preferred Shares				
4.60% Series 1	**4,600,000**	**115**	4,600,000	115
2.292% Series 4	**3,000,000**	**75**	3,000,000	75
Issuance costs		**(3)**		(3)
		187		187

Rights and privileges

Preferred shares	Redemption Amount (1)	Quarterly Dividend (2)	Reset Premium (3)	Date Redeemable/Convertible	Convertible To
Series 1	25.00	0.2875	Does not reset	Currently redeemable	Not convertible
Series 4	25.00	0.14325	1.36 %	June 1, 2026 (4)	Series 5 (5)

(1) Plus accrued and unpaid dividends.

(2) Cumulative, payable quarterly as and when declared by the Board.

(3) Dividend rate will reset on the date redeemable/convertible and every five years thereafter at a rate equal to the Government of Canada yield plus the reset premium noted.

(4) Redeemable by the Company or convertible by the holder on the date noted and every five years thereafter.

(5) If converted, holders will be entitled to receive quarterly floating rate dividends equal to the Government of Canada Treasury Bill yield plus the reset premium noted. Holders have the option to convert back to the original preferred shares series on subsequent redemption dates.

EQUITY PREFERRED SHARES TO PARENT COMPANY

Authorized and issued

Authorized: an unlimited number of Series Second Preferred Shares, issuable in series.

	2021		2020	
Issued	**Shares**	**Amount**	**Shares**	**Amount**
Perpetual Cumulative Second Preferred Shares				
4.60% Series V	–	–	3,176,578	79

In 2021, the Company redeemed all of the issued 4.60 per cent Series V Preferred Shares for $79 million plus accrued dividends.

DIVIDENDS

Cash dividends declared and paid per share during the year ended December 31 are as follows:

(dollars per share)	**2021**	**2020**
Cumulative Redeemable Preferred Shares		
4.60% Series 1	**1.1500**	1.1500
2.292% Series 4 (1)	**0.5669**	0.5608
Perpetual Cumulative Second Preferred Shares		
4.60% Series V (2)	**0.7456**	1.1500

(1) Effective June 1, 2021, the annual dividend rate for the Series 4 Preferred Shares was reset at 2.292 per cent for the five-year period from June 1, 2021 to May 31, 2026. Prior to the reset on June 1, 2021, the annual dividend rate was 2.24 per cent.

(2) The 4.60% Series V Preferred Shares were redeemed on August 27, 2021.

The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

On January 13, 2022, the Company declared first quarter eligible dividends of $0.28750 per Series 1 Preferred Share and $0.14325 per Series 4 Preferred Share.

17. CLASS A AND CLASS B SHARES

The number and dollar amount of outstanding Class A non-voting and Class B common shares at December 31 is shown below.

	Class A Non-Voting		Class B Common		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Authorized:	Unlimited		Unlimited			
Issued and outstanding:						
December 31, 2020 and 2021	**3,570,322**	**654**	**2,188,262**	**402**	**5,758,584**	**1,056**

Class A and Class B shares have no par value.

The Company declared and paid cash dividends of $64.32 per Class A non-voting share and Class B common share during 2021 (2020 - $72.93). The payment and amount of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

18. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities for the year ended December 31 are summarized below.

	2021	2020
Depreciation and amortization	**547**	520
Income tax expense	**122**	129
Contributions by customers for extensions to plant	**148**	69
Amortization of customer contributions	**(53)**	(55)
Net finance costs	**372**	368
Income taxes (paid) recovered	**(15)**	1
Provision on early termination of the master service agreement for managed IT services (*Note 3*)	**–**	66
Other	**(19)**	(25)
	1,102	1,073

CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital for the year ended December 31 are summarized below.

	2021	2020
Operating activities		
Accounts receivable and contract assets	**(70)**	(19)
Accounts receivable from parent and affiliate companies	**1**	1
Inventories	**1**	–
Prepaid expenses and other current assets	**2**	(2)
Accounts payable and accrued liabilities	**49**	36
Accounts payable to parent and affiliate companies	**5**	(35)
Provisions and other current liabilities	**3**	3
	(9)	(16)
Investing activities		
Accounts receivable and contract assets	**(12)**	(5)
Accounts payable and accrued liabilities	**(8)**	–
	(20)	(5)

DEBT RECONCILIATION

The reconciliation of the changes in debt for the year ended December 31 is shown below.

	Short-term debt	Long-term debt
Liabilities from financing activities		
December 31, 2019	–	8,051
Net issue of debt	–	50
Debt issue costs	–	(2)
Amortization of deferred financing charges	–	2
December 31, 2020	–	8,101
Net issue of debt	**206**	**301**
Debt issue costs	–	**(3)**
Amortization of deferred financing charges	–	**2**
December 31, 2021	**206**	**8,401**

CASH POSITION

Cash position at December 31 is comprised of:

	2021	2020
Cash	**56**	13
Short-term advances to parent company	**65**	65
Cash and cash equivalents	**121**	78
Bank indebtedness	**(4)**	(3)
Short-term advances from parent company	**(65)**	(97)
	52	(22)

19. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, short-term advances to parent company, accounts receivable and contract assets, trade accounts receivable from parent and affiliate companies, bank indebtedness, short-term advances from parent company, accounts payable and accrued liabilities, accounts payable to parent and affiliate companies and short-term debt	Assumed to approximate carrying value due to their short-term nature.
Long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).

The fair values of the Company's financial instruments measured at amortized cost at December 31 are as follows:

Recurring Measurements	2021 Carrying Value	2021 Fair Value	2020 Carrying Value	2020 Fair Value
Financial Liabilities				
Long-term debt	**8,401**	**9,921**	8,101	10,435

OFFSETTING FINANCIAL ASSETS

At December 31, the following financial assets are subject to offsetting, enforceable master netting arrangements and similar agreements:

Financial Assets	2021 Gross Amount	2021 Gross Amount Offset	2021 Net Amount Recognized	2020 Gross Amount	2020 Gross Amount Offset	2020 Net Amount Recognized
Accounts receivable and contract assets	**65**	**(39)**	**26**	61	(39)	22

20. RISK MANAGEMENT

The Company is exposed to a variety of risks associated with the use of financial instruments: market risk, credit risk and liquidity risk. The Company's Board is responsible for understanding the principal risks of the Company's business, achieving a proper balance between risks incurred and the potential return to share owners, and confirming there are controls in place to effectively monitor and manage those risks with a view to the long-term viability of the Company. The Board established the Audit Committee to review significant risks associated with future performance, growth and lost opportunities identified by management that could materially affect the Company's ability to achieve its strategic or operational targets. This committee is responsible for confirming that management has procedures in place to mitigate identified risks.

The source of risk exposure and how each is managed is outlined below.

MARKET RISK

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign exchange risk from financial instruments denominated in currencies other than the functional currency of an operation. The majority of this currency risk arises from exposure to the U.S. dollar. The Company offsets foreign exchange volatility in part by entering into foreign currency derivative contracts. The Company's risk management policy is to hedge all material transactions with foreign exchange risks arising from the sale or purchase of goods and services where revenue or the costs to be incurred are denominated in a currency other than the functional currency of the transacting company.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty's inability to discharge their contractual obligations to the Company. The Company is exposed to credit risk on its cash and accounts receivable and contract assets. The exposure to credit risk represents the total carrying amount of these financial instruments in the consolidated balance sheet.

The Company manages its credit risk on cash by investing in instruments issued by credit-worthy financial institutions and in short-term instruments issued by the federal government.

The Company does not have a concentration of credit risk with any counterparty. Accounts receivable and contract assets credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations. At December 31, 2021, the Company held $214 million in letters of credit for certain counterparty receivables (2020 - $199 million). The Company has also entered into guarantee arrangements with

Direct Energy's parent company (NRG Energy) relating to the retail energy supply functions performed by Direct Energy (see Note 24).

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days.

Depending on the nature of accounts receivable and contract assets, the Company estimates credit losses based on the expected credit loss rates for respective credit ratings. At December 31, the summary of the expected credit loss rates for respective credit ratings is as follows:

	High (AA to AAA)	Medium (BBB to A)	(BB and below)
December 31, 2021	0%-0.02%	0.05%-0.15%	0.48%-3.13%
December 31, 2020	0%-0.02%	0.05%-0.16%	0.51%-3.20%

At December 31, 2021, the Company had less than $20 million of accounts receivable and contract assets classified as Low (BB and below) (2020 - less than $20 million).

Where the Company believes there is a high probability of a customer default, additional credit allowances are recorded.

The credit loss recognized during 2021 was less than $1 million (2020 - $1 million). As at December 31, 2021, the expected credit loss allowance balance was less than $1 million (2020 - $2 million).

The aging analysis of trade receivables that are past due but not impaired at December 31 is as follows:

	2021	**2020**
Up to 30 days	**437**	364
31 to 60 days	**2**	5
61 to 90 days	**2**	2
Over 90 days	**5**	5
	446	376

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled in cash or another financial asset. Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital structure. 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, bank borrowings and issuance of long-term debt and Class A and B shares. Commercial paper borrowings and short-term bank loans are also used under available credit lines to provide flexibility in the timing and amounts of long-term financing.

Lines of credit

At December 31, the Company has the following lines of credit that enable it to obtain financing for general business purposes:

			2021			**2020**
	Total	**Used**	**Available**	**Total**	**Used**	**Available**
Long-term committed	**900**	**206**	**694**	900	–	900
Uncommitted	**128**	**65**	**63**	128	85	43
	1,028	**271**	**757**	1,028	85	943

Long-term committed credit facilities have maturities greater than one year. Uncommitted credit facilities have no set maturity and the lender can demand repayment at any time.

Lines of credit utilized at December 31 are comprised of:

	2021	2020
Short-term debt	**206**	–
Letters of credit	**65**	85
	271	85

Commercial paper

The Company is authorized to issue $700 million of commercial paper against its long-term committed credit facilities.

Maturity analysis of financial obligations

The table below analyzes the remaining contractual maturities at December 31, 2021, of the Company's financial liabilities based on the contractual undiscounted cash flows.

	2022	2023	2024	2025	2026	2027 and thereafter
Accounts payable and accrued liabilities	450	–	–	–	–	–
Accounts payable to parent and affiliate companies	39	–	–	–	–	–
Short-term debt	206	–	–	–	–	–
Long-term debt:						
Principal	125	107	120	–	125	7,970
Interest expense	348	351	341	333	336	6,422
	1,168	458	461	333	461	14,392

The table below analyzes the remaining contractual maturities at December 31, 2020, of the Company's financial liabilities based on the contractual undiscounted cash flows, as reported in the consolidated financial statements for the year ended December 31, 2020.

	2021	2022	2023	2024	2025	2026 and thereafter
Accounts payable and accrued liabilities	405	–	–	–	–	–
Accounts payable to parent and affiliate companies	11	–	–	–	–	–
Long-term debt:						
Principal	160	131	100	120	–	7,635
Interest expense	354	345	336	327	325	6,396
	930	476	436	447	325	14,031

PANDEMIC RISK

An outbreak of infectious disease, a pandemic or a similar public health threat, such as the COVID-19 pandemic, could adversely impact the Company. This includes causing operating, supply chain and project development delays and disruptions, labor shortages and shutdowns as a result of government regulation and prevention measures, increased strain on employees and compromised levels of customer service, any of which could have a negative impact on the Company's operations.

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

While the Company's investments are largely focused on regulated utilities and long-term contracted businesses with strong counterparties creating a resilient investment portfolio, the extent of the COVID-19 pandemic and its future impact on the Company remains uncertain. In response to the evolving situation, the Company's Pandemic

Plan was activated in February 2020. The plan included travel restrictions, limited access to facilities, a direction to work from home whenever possible, physical distancing measures and other protocols (including the use of personal protective equipment while at a work premise). Since then, the Company has been following recommendations by local and national public health authorities across the globe to adjust operational requirements as needed to ensure a coordinated approach across the Company. As a result of these efforts and the Company’s experience in crisis response, the Company’s operations, financial position and performance have not been significantly impacted for the year ended December 31, 2021.

CLIMATE CHANGE RISK

The Company manages climate risks related to assets, 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 expenditures or acquiring assets, the Company considers site specific climate and weather factors, such as flood plain mapping and extreme weather history.

The Company also continues to explore and implement opportunities in clean fuels, renewable energy, and energy efficiency. This includes looking at ways to modernize the Company's energy infrastructure to accommodate new and innovative sources of energy as well as ways to further use energy more efficiently. This process is associated with risks and uncertainties, and is highly dependent on changes in legislation, market price volatility, local and global demand on energy, as well as the timing of when the local and global markets transition to a more energy efficient and cleaner fuels-based economy. The extent and significance of the future impact of such risks and uncertainties remain unknown.

21. CAPITAL DISCLOSURES

The Company’s objectives when managing capital are to:

1. Safeguard the Company’s ability to continue as a going concern so it can continue to provide returns to share owners and benefits for other stakeholders.
2. Maintain strong investment-grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.
3. Remain within the capital structure approved by the AUC for the utilities.

The Company considers the impact of the AUC’s decisions with respect to the company’s subsidiaries, as well as changes in economic conditions and risks impacting its operations, in managing its capital structure. The Company may adjust the dividends paid to the share owner, issue or purchase Class A and Class B shares, and issue or redeem preferred shares, short-term debt and long-term debt. Financing decisions are based on assessments by management in line with the Company’s objectives, with a goal of managing the financial risk to the Company as a whole.

While the utilities have as their objective to be capitalized according to the AUC-approved capital structure, the Company as a whole is not restricted in the same manner. The Company sets its capital structure relative to risk and to meet financial and operational objectives, while factoring in the decisions of the regulator.

The Company also manages capital to comply with the customary covenants on its debt. A common financial covenant for a large portion of the Company’s debentures and credit facilities is that total debt divided by total capitalization must be less than 75 per cent. The Company defines total debt as the sum of bank indebtedness, short-term debt and long-term debt (including current portion). It defines total capitalization as the sum of Class A and Class B shares, retained earnings, equity preferred shares, and total debt. Management maintains the debt capitalization ratio well below 75 per cent to sustain access to cost-effective financing.

Debt capitalization does not have standardized meaning under IFRS and might not be comparable to similar measures presented by other companies. Also, the definitions of total debt and total capitalization vary slightly in the Company’s debt-related agreements.

The Company's capitalization at December 31 is as follows:

	2021	2020
Bank indebtedness	**4**	3
Short-term advances from parent company	**65**	97
Short-term debt	**206**	–
Long-term debt	**8,401**	8,101
Total debt	**8,676**	8,201
Class A and Class B shares	**1,056**	1,056
Retained earnings	**3,651**	3,627
Equity preferred shares	**187**	187
Equity preferred shares to parent company	**–**	79
Total equity	**4,894**	4,949
Total capitalization	**13,570**	13,150
Debt capitalization	**64 %**	62 %

For the year ended December 31, 2021, the Company complied with externally imposed requirements on its capital, including covenants related to debentures and credit facilities. The Company will continue to assess its capital structure and objectives in light of any future decisions received from the AUC.

22. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant judgments, estimates and assumptions made by the Company are outlined below.

SIGNIFICANT ACCOUNTING JUDGMENTS

Impairment of financial assets

The impairment loss allowance for financial assets is based on assumptions about risk of default and expected loss rates. The Company makes judgments in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Impairment of long-lived assets

Indicators of impairment are considered when evaluating whether or not an asset is impaired. Factors which could indicate an impairment exists include: significant underperformance relative to historical or projected operating results, significant changes in the way in which an asset is used or in the Company's overall business strategy, significant negative industry or economic trends, or adverse decisions by regulators. Events indicating an impairment may be clearly identifiable or based on an accumulation of individually insignificant events over a period of time. The Company continually monitors its operating facilities and the markets and business environment in which it operates. Judgments and assessments about conditions and events are made in order to conclude whether a possible impairment exists.

Property, plant and equipment and intangibles

The Company makes judgments to: assess the nature of the costs to be capitalized and the time period over which they are capitalized in the purchase or construction of an asset; evaluate the appropriate level of componentization where an asset is made up of individual components for which different depreciation and amortization methods and useful lives are appropriate; distinguish major overhauls to be capitalized from repair and maintenance activities to be expensed; and determine the useful lives over which assets are depreciated and amortized.

Leases

The Company evaluates contract terms and conditions to determine whether they contain or are leases. Where a lease exists, the Company determines whether substantially all of the significant risks and rewards of ownership are transferred to the customer, in which case it is accounted for as a finance lease, or remain with the Company, in which case it is accounted for as an operating lease.

In the situation where the implicit interest rate in the lease is not readily determined, the Company uses judgment to estimate the incremental borrowing rate for discounting the lease payments. The Company's incremental borrowing rate generally reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security. The Company estimates the lease term by considering the facts and circumstances that create an economic incentive to exercise an extension or termination option. Certain qualitative and quantitative assumptions are used when evaluating these incentives.

Income taxes

The Company makes judgments with respect to changes in tax legislation, regulations and interpretations thereof. Judgment is also applied to estimating probable outcomes, when temporary differences will reverse, and whether tax assets are realizable.

When tax legislation is subject to interpretation, management periodically evaluates positions taken in tax filings and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date, using a probability weighting of possible outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Revenue recognition

An estimate of usage not yet billed is included in revenues from the regulated distribution of natural gas and electricity. The estimate is derived from unbilled gas and electricity distribution services supplied to customers and is based on historical consumption patterns. Management applies judgment to the measure and value of the estimated consumption.

Impairment of financial assets

The impairment loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. For details regarding significant assumptions and key inputs used to calculate impairment loss allowance, see Note 20.

Useful lives of property, plant and equipment and intangibles

Useful lives are estimated based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence.

Impairment of long-lived assets

The Company continually monitors its long-lived assets and the markets and business environment in which it operates for indications of asset impairment. Where necessary, the Company estimates the recoverable amount for the cash generating unit (CGU) to determine if an impairment loss is to be recognized. These estimates are based on assumptions, such as the price for which the assets in the CGU could be obtained or future cash flows that will be produced by the CGU, discounted at an appropriate rate. Subsequent changes to these estimates or assumptions could significantly impact the carrying value of the assets in the CGU.

Leases

Useful lives of right-of-use assets are based on current facts and past experience taking into account the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecast demand, and the potential for technological obsolescence.

Onerous contracts

In assessing the unavoidable costs of meeting obligations under an onerous contract at the reporting date, the Company identifies and quantifies any compensation or penalties, other costs arising from the need to terminate a contract or inability to fulfil it. This process involves judgment about the future events, interpretation of legal terms of a contract, as well as estimates on the timing and amount of future cash flows. The change in used estimates and underlying assumptions can significantly impact the amount of recognized provision in relation to onerous contracts.

Retirement benefits

The Company consults with qualified actuaries when setting the assumptions used to estimate retirement benefit obligations and the cost of providing retirement benefits during the period. These assumptions reflect management's best estimates of the long-term inflation rate, projected salary increases, retirement age, discount rate, health care costs trend rates, life expectancy and termination rates. The discount rate is determined by reference to market yields on high quality corporate bonds. Since the discount rate is based on current yields, it is only a proxy for future yields. Significant assumptions used to determine the retirement benefit cost and obligation are shown in Note 13.

Asset retirement obligations

The Company's estimates regarding asset retirement costs and related obligations change as a result of changes in cost estimates, legal and constructive requirements, market rates and technological advancement. The significant assumptions used to record asset retirement obligations include, but are not limited to, expected timing of retirement of an asset, scope and costs of retirement and reclamation activities, rates of inflation and a pre-tax risk-free discount rate. The estimates and assumptions for asset retirement obligations are reviewed at each reporting period. Changes to the estimates or assumptions could significantly impact the carrying values of the asset retirement obligations.

Income taxes

Management periodically evaluates positions taken in tax filings where tax legislation is subject to interpretation, and records provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured using a probability weighting of possible outcomes.

Use of judgments and estimates around the COVID-19 pandemic

For the year ended December 31, 2021, the Company performed an assessment of the impacts of uncertainties around the COVID-19 pandemic on its consolidated financial position, financial performance and cash flows. The assessment required use of judgments and estimates and resulted in no material impacts to the consolidated financial statements.

23. SUBSIDIARIES

Principal operating subsidiaries, all of which are wholly owned, are listed below.

Principal Operating Subsidiaries	Principal Place of Business	Principal Activity
ATCO Electric	Canada	Electricity transmission, distribution and related infrastructure development
ATCO Gas [(1)]	Canada	Natural gas distribution and related infrastructure development
ATCO Pipelines [(1)]	Canada	Natural gas transmission and related infrastructure development

(1) ATCO Gas and ATCO Pipelines are divisions of ATCO Gas and Pipelines Ltd.

24. CONTINGENCIES

AUC enforcement proceeding

On November 29, 2021, the AUC enforcement branch filed an application with the AUC recommending an enforcement proceeding be initiated. This proceeding is to determine whether ATCO Electric Transmission failed to comply with AUC decisions and enactments under the AUC's jurisdiction with respect to the 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. This proceeding will also determine any future remedies that may be required.

AUC Enforcement and Electricity Transmission are pursuing settlement discussions prior to the AUC determining the next process steps. In 2021, the Company recognized expenses of $16 million ($14 million after-tax) related to the proceeding, however, the ultimate outcome of the enforcement proceeding is uncertain and could differ materially from the amount recognized.

Measurement inaccuracies

Measurement inaccuracies occur from time to time on electricity and gas metering facilities. These measurement adjustments are settled between the parties according to the Electricity and Gas Inspections Act (Canada) and related regulations. The AUC may disallow recovery of a measurement adjustment if it finds that controls and timely follow-up are inadequate.

Direct Energy Partnership retail obligation

In 2004, ATCO Gas and ATCO Electric Distribution transferred their retail energy supply businesses to Direct Energy Partnership (Direct Energy). The legal obligations of ATCO Gas and ATCO Electric Distribution for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric Distribution, with no refund of the transfer proceeds to Direct Energy.

NRG Energy Inc. (NRG), Direct Energy's parent company, provided a $300 million guarantee, supported by a $300 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric Distribution under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

Other

The Company is party to a number of other disputes and lawsuits in the normal course of business. The Company believes that the ultimate liability arising from these matters will have no material impact on the consolidated financial statements.

25. COMMITMENTS

In addition to commitments disclosed elsewhere in these financial statements, the Company has entered into a number of operating and maintenance agreements and agreements to purchase capital assets. Approximate future undiscounted payments under these agreements are as follows:

	2022	2023	2024	2025	2026	2027 and thereafter
Purchase obligations:						
Operating and maintenance agreements	**314**	**311**	**271**	**41**	**32**	**92**
Capital expenditures	**268**	–	–	–	–	–
Other	**6**	–	–	–	–	–
	588	**311**	**271**	**41**	**32**	**92**

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not included in this note.

TRANSACTIONS WITH PARENT COMPANY OR ULTIMATE PARENT

Transaction	Recorded As	2021	2020
Rent, aircraft usage and licensing fees	Other expenses	**19**	17
Capital projects and building rent	Property, plant and equipment	**4**	4
Interest on short-term advances [(1)]	Interest expense	**1**	1
Equity preferred share dividends *(Note 16)*	Retained earnings	**2**	4

(1) The interest rates on short-term advances are based on the Bank of Canada overnight rate plus an applicable spread.

TRANSACTIONS WITH AFFILIATE COMPANIES

Transaction	Recorded As	2021	2020
Natural gas and electricity distribution, and management, planning and engineering services	Revenues	**17**	24
Purchase of natural gas	Fuel costs	**4**	4
Office services	Other expenses	**5**	5

Affiliate companies are subsidiaries of the Company's parent or ultimate parent.

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

RELATED PARTY LOANS AND BALANCES

Balances	Recorded As	2021	2020
Receivables from related parties (1)	Accounts receivable from parent company	**1**	1
	Accounts receivable from affiliate companies	**11**	12
Short-term advances (2)	Short-term advances to parent company	**65**	65
	Short-term advances from parent company	**65**	97
Payables to related parties (1)	Accounts payable to parent company	**25**	9
	Accounts payable to affiliate companies	**14**	2
Equity preferred shares *(Note 16)*	Equity preferred shares to parent company	**–**	79

(1) Generally due within 30 days or less from the date of the transaction. The amounts outstanding are unsecured, bear no interest and will be settled in cash. No provisions are held against receivables from related parties.

(2) The interest rates on short-term advances are based on the Bank of Canada overnight rate plus an applicable spread.

KEY MANAGEMENT COMPENSATION

Information on management compensation for the year ended December 31 is shown below.

	2021	2020
Salaries and short-term employee benefits	**11**	8
Retirement benefits	**2**	2
Share-based compensation (1)	**3**	(3)
	16	7

(1) In 2020, related to certain forfeitures of mid-term incentive plan grants.

Key management personnel comprise members of executive management and the Board, a total of 18 individuals (2020 - 14 individuals).

27. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Subsidiaries are consolidated from the date control is obtained until the date control ends. Control exists where the Company has power over the investee, exposure or rights to variable returns from the investee and the ability to use its power over the investee to affect returns.

All intra-group balances and transactions are eliminated on consolidation.

REVENUE RECOGNITION

Revenue is allocated to the respective performance obligations based on relative transaction prices, and is recognized as goods and services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred or services delivered. The amount of revenue recognized reflects the time value of money where a significant financing component has been identified.

Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change.

Where the amount of goods and services delivered to the customer corresponds directly to the amount invoiced, the Company recognizes revenue equal to what it has the right to invoice.

Where the Company arranges for another party to provide a specified good or service (that is, it does not control the specified good or service provided by another party before that good or service is transferred to the customer), only revenues net of payments to the other party for the goods or services provided are recognized.

Non-cash considerations received from the Company's customers are included in the amount of revenue recognized and measured at fair value.

Costs incurred directly to obtain or fulfill a contract are capitalized and amortized to expense over the life of the contract.

Electricity and natural gas transmission

Revenue from electricity and natural gas transmission services is recognized when service is provided to customers and is measured in proportion to the amount it has the right to invoice under the contract.

Customer contributions for extensions to plant are recognized as revenue over the life of the related asset.

Electricity and natural gas distribution

Revenue from distribution of electricity and natural gas is recognized when the services are provided to the customer based on metered consumption, which is adjusted periodically to reflect differences between estimated and actual consumption. Distribution of regulated and non-regulated electricity and natural gas is based on tariff-approved rates established by the Alberta Electric System Operator and Natural Gas Exchange and rates stipulated in the contracts, respectively. The Company recognizes revenue in an amount that corresponds directly with the services delivered and the amount invoiced.

Customer contributions for extensions to plant are recognized as revenue over the life of the related asset.

Franchise fees

Municipal governments charge franchise fees to the utilities in Canada for the exclusive right to provide service in their community. These costs are charged to customers through rates approved by the regulator. Franchise fees do not represent a separate performance obligation to a customer and are recovered through utility transmission and distribution prices. The recovery is part of the provision of continuous electricity and natural gas transmission and distribution service performance obligation. Franchise fees invoiced to customers are recognized as revenues.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognized as an expense in salaries, wages and benefits as employees render service. These benefits include wages, salaries, social security contributions, short-term compensated absences, incentives and non-monetary benefits, such as medical care. Costs for employee services incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

Termination benefits are recognized as an expense in salaries, wages and benefits at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring that includes the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

INCOME TAXES

Income taxes are the sum of current and deferred taxes. Income tax is recognized in earnings, except to the extent it relates to items recorded in other comprehensive income (OCI) or in equity.

Current tax is calculated on taxable earnings using rates enacted or substantively enacted at the balance sheet date in the jurisdictions in which the Company operates.

The liability method is used to determine deferred income tax on temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred income tax is calculated using the enacted or substantively enacted tax rates that are expected to apply in the period when the liability is settled or the asset is realized. If expected tax rates change, deferred income taxes are adjusted to the new rates.

Deferred income tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or of other assets and liabilities in a transaction, other than a business combination, that does not affect accounting or taxable earnings. The tax effect of temporary differences from investments in subsidiaries are not accounted for where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized only when it is probable that future taxable earnings will be available against which the temporary differences can be applied.

Current income tax assets and liabilities are offset where the Company has the legally enforceable right to offset and the Company intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are offset where the Company has a legally enforceable right to set off tax assets and liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. The cost of inventories that are interchangeable is assigned using the weighted average cost method. For inventories that are not interchangeable, cost is assigned using specific identification of their individual costs. Net realizable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

The cost of inventories is comprised of all purchase, conversion and other costs to bring inventories to their present condition and location. Purchase costs consist of the purchase price, import duties, non-recoverable taxes, transport, handling and other costs directly attributable to the purchase of finished goods, materials or services. Conversion costs include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the purchase or construction of the asset, such as materials, labour, borrowing costs incurred during construction, and contracted services. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits will flow to the Company and the cost can be measured reliably.

Borrowing costs attributable to a construction period of substantial duration are added to the cost of the asset. The effective interest method is used to calculate capitalized interest using specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization starts when borrowing costs and expenditures are incurred at the onset of construction and ends when construction is substantially complete.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Assets are depreciated mainly on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress.

The carrying amount of a replaced asset is derecognized when the cost of replacing the asset is capitalized. When an asset is derecognized, any resulting gain or loss is recorded in earnings.

Depreciation periods for the principal categories of property, plant and equipment are shown in the table below.

	Useful Life	Average Useful Life	Average Depreciation Rate
Utility transmission and distribution:			
Electricity transmission equipment	10 to 67 years	51 years	2.0 %
Electricity distribution equipment	10 to 103 years	43 years	2.3 %
Gas transmission equipment	3 to 57 years	42 years	2.4 %
Gas distribution plant and equipment	6 to 57 years	42 years	2.4 %
Buildings	12 to 50 years	28 years	3.5 %
Other plant, equipment and machinery	4 to 50 years	18 years	5.6 %

Depreciation methods and the estimated residual values and useful lives of assets are reviewed on an annual basis. Any changes in these accounting estimates are recorded prospectively.

INTANGIBLES

Intangible assets are recorded at cost less accumulated amortization and any recognized impairment losses. The Company amortizes intangible assets on a straight-line basis over their useful lives. Useful life is not longer than 10 years for computer software and between 74 and 80 years for land rights based on the contractual life of the underlying agreements. Software work-in-progress is not amortized as the software is not available for use.

Amortization methods and useful lives of assets are reviewed annually. Any changes in these accounting estimates are recorded prospectively.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLES

Property, plant and equipment and intangible assets with finite lives are tested for recoverability when events or circumstances indicate a possible impairment. Impairment is assessed at the CGU level, which is the smallest identifiable group of assets that generates independent cash inflows. An impairment loss is recognized in earnings when the CGU's carrying value is higher than its recoverable amount. The recoverable amount is the greater of the CGU's fair value less disposal costs and its value in use. An impairment loss may be reversed in whole or in part if there is objective evidence that a change in the estimated recoverable amount is warranted. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

LEASES

The Company as a lessee

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A right-of-use asset representing the right to use the underlying asset with a corresponding lease liability is recognized when the leased asset becomes available for use by the Company.

The right-of-use asset is recognized at cost and is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset and the lease term on a straight-line basis. The cost of the right-of-use asset is based on the following:

- the amount of initial recognition of related lease liability;
- adjusted by any lease payments made on or before inception of the lease;
- increased by any initial direct costs incurred; and
- decreased by lease incentives received and any costs to dismantle the leased asset.

The lease term includes consideration of an option to extend or to terminate if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liabilities are initially recognized at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Subsequent to recognition, lease liabilities are measured at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising mainly from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option.

The payments related to short-term leases and low-value leases are recognized as other expenses over the lease term in the consolidated statements of earnings.

The Company as a lessor

A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Amounts due from lessees under finance leases are recorded as finance lease receivables. They are initially recognized at amounts equal to the present value of the minimum lease payments receivable. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

PROVISIONS

The Company recognizes provisions when:

(i) there is a current legal or constructive obligation as a result of a past event;

(ii) a probable outflow of economic benefits will be required to settle the obligation; and

(iii) a reliable estimate of the obligation can be made.

Current legal or constructive obligations arising from onerous contracts are recognized as provisions when the unavoidable cost of meeting the obligation under the contract exceeds the economic benefits expected to be received.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. If discounting is used, the increase in the provision due to the passage of time is recognized in interest expense.

CONTINGENCIES

A contingent liability is a possible obligation, and a contingent asset is a possible asset, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent liability may also be a present obligation that arises from past events that is not recognized because it is not probable that an outflow of economic resources will be required to settle the obligation or the amount of the obligation cannot be measured reliably.

Neither contingent liabilities nor assets are recognized in the consolidated financial statements. However, a contingent liability is disclosed, unless the possibility of an outflow of resources is remote. A contingent asset is only disclosed where an inflow of economic benefits is probable.

Management evaluates the likelihood of contingent events based on the probability of exposure to potential loss. Actual results could differ from these estimates.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations (AROs) are legal and constructive obligations connected with the retirement of tangible long-lived assets. These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for AROs are adjusted to take risks and uncertainties into account and are discounted using a pre-tax, risk-free discount rate.

Initially, an ARO is recorded in provisions, included in other liabilities, with a corresponding increase to property, plant and equipment. Subsequently, the carrying amount of the provision is accreted over the estimated time period until the obligation is to be settled; the accretion expense is recognized as interest expense. The asset is depreciated over its estimated useful life. Revaluations of the ARO at each reporting period take into account changes in estimated future cash flows and the discount rate.

FINANCIAL INSTRUMENTS

The Company classifies financial assets when they are first recognized as amortized cost or fair value through profit or loss. Classification is determined based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured at amortized cost if the financial asset is:

(i) held for the purpose of collecting contractual cash flows, and

(ii) the contractual cash flows of the financial asset solely represent payments of principal and interest.

All other financial assets are classified as fair value through profit or loss.

Financial liabilities are classified as amortized cost or fair value through profit or loss.

Amortized cost

Financial instruments classified as amortized cost are initially measured at fair value and subsequently measured at their amortized cost using the effective interest method.

Fair value through profit or loss

Financial instruments classified as fair value through profit or loss are initially measured at fair value with subsequent changes in fair value recognized in earnings.

Transaction costs

Transaction costs directly attributable to the purchase or issue of financial assets or financial liabilities that are not classified as fair value through profit or loss are added to the fair value of such assets or liabilities when initially recognized. Transaction costs for long-term debt are amortized over the life of the respective financial liability using the effective interest method. The Company's long-term debt and equity preferred shares are presented net of their respective transaction costs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet:

(i) if there is a legally enforceable right to offset the recognized amounts, and

(ii) if the Company intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

Financial assets are derecognized:

(i) when the right to receive cash flows from the financial assets has expired or been transferred, and

(ii) the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged, cancelled, or expired.

Fair value hierarchy

The Company uses quoted market prices when available to estimate fair value. Models incorporating observable market data, along with transaction specific factors, are also used to estimate fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input may affect placement within the fair value hierarchy levels.

The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting means recognizing an asset on the day it is received by the Company and recognizing the disposal of an asset on the day it is delivered by the Company. Any gain or loss on disposal is also recognized on that day.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

At each reporting date, the Company assesses whether there is evidence that a financial asset or group of financial assets is impaired. If such evidence exists, an impairment loss is recognized in earnings.

Impairment losses on financial assets carried at amortized cost are calculated as the difference between the amortized cost and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses on financial assets carried at amortized cost may be reversed in whole or in part if there is evidence that a change in the estimated recoverable amount is warranted. The revised recoverable amount cannot exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods.

The Company applies the expected credit loss allowance matrix based on historical credit loss experience, aging of financial assets, default probabilities, forward-looking information specific to the counterparty, and industry-specific economic outlooks.

For accounts receivable and contract assets, the Company estimates credit loss allowances at initial recognition and throughout the life of the receivable.

RETIREMENT BENEFITS

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in a registered group defined benefit pension plan (the Group Plan). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Company is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid. Contributions related to current service cost are allocated in proportion to capped pensionable earnings for each company. Contributions related to the amortization of the unfunded liability are allocated in proportion to the corresponding going-concern liability for each company which was established based on the actuarial valuations for funding purposes as of December 31, 2020.

The minimum funding requirements for the Group Plan are comprised of the contributions related to current service cost and the amortization of the unfunded liability as determined by the actuary. The Company does not have any liability to the Group Plan other than the minimum funding requirements of its subsidiaries. In the event of a withdrawal from the Group Plan or the termination of the Group Plan, the companies will still be required to contribute to the Group Plan where such contributions are required under pension regulations.

The Company participates, together with Canadian Utilities Limited and its subsidiary companies, in OPEB and non-registered group defined benefit pension plans. These plans are administered on a combined basis, and the Company accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit method and reflect management's best estimates of wage and salary increases, age at retirement and expected health care costs. The Company consults with qualified actuaries when setting the assumptions used to estimate benefit obligations and the cost of providing retirement benefits during the period.

Accrued benefit obligations at the balance sheet date are determined using a discount rate that reflects market interest rates. The rates are equivalent to those on high quality corporate bonds that match the timing and amount of expected benefit payments.

For the non-registered defined benefit pension plans, the Company is assessed a percentage of the total cost of the plans.

For the non-registered defined benefit pension plan and the OPEB plans, gains and losses resulting from changes in assumptions, including the liability discount rate and future compensation rates, used to measure the accrued benefit obligations are recognized in OCI in the period in which they occur. Those gains and losses are then transferred directly to retained earnings.

Employer contributions to the defined contribution pension plans are expensed as employees render service.

For non-registered defined benefit pension plans and OPEB plans, service cost is recognized as an expense in salaries, wages and benefits, and net interest expense is recognized in interest expense. The cost of retirement benefits for registered defined benefit pension plans and defined contribution pension plans is recognized as an expense in salaries, wages and benefits. Past service costs are recognized immediately in earnings in the period of a plan amendment or curtailment. When retirement benefit costs for employee services are incurred in constructing an asset and meet asset recognition criteria, they are included in the related property, plant and equipment or intangible asset.

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.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are translated at the exchange rate on the date of the transaction.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At December 31, 2021, there are no new or amended standards and interpretations that need to be adopted in future periods and will have a significant impact on the Company.

CU INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED DECEMBER 31, 2021

March 31, 2022

This Annual Information Form (AIF) is meant to help readers understand the business and operations of CU Inc. (our, we, us, or the Company).

Unless otherwise noted, the information contained within this AIF is presented as at December 31, 2021.

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

Terms used throughout this AIF are defined in the Glossary at the end of this document.

TABLE OF CONTENTS

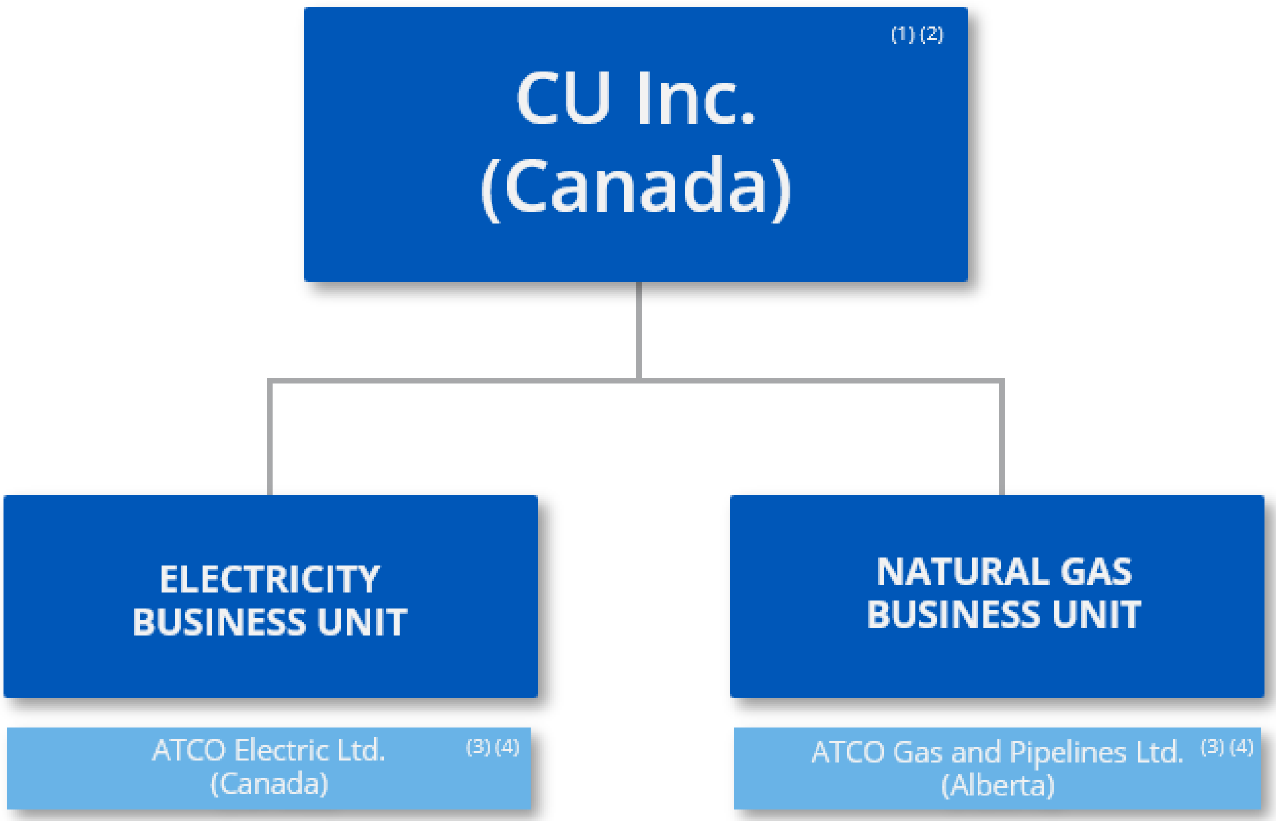
CORPORATE STRUCTURE

CU Inc. was incorporated under the *Canada Business Corporations Act* on March 12, 1999. The address of the head office and registered office of the Company is 4th Floor, West Building, 5302 Forand Street S.W., Calgary, Alberta, T3E 8B4.

SIMPLIFIED INTERCORPORATE RELATIONSHIPS

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO company. CU Inc. is an Alberta-based corporation with approximately 3,200 employees and assets of $18 billion comprised of rate regulated utility operations in natural gas transmission and distribution and electricity transmission and distribution. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

The following chart includes the names of the Company's principal business units, as well as the principal subsidiaries comprising the business units, and the jurisdictions in which they are governed. The chart also shows the percentages of such subsidiaries' shares the Company beneficially owns, controls or directs, either directly or indirectly.



(1) *The organizational chart does not include all of the subsidiaries of the Company. The assets and revenues of excluded subsidiaries in the aggregate did not exceed 20 per cent of the total consolidated assets or total consolidated revenues of the Company as at December 31, 2021.*

(2) *The Company owns all of the voting and non-voting shares of the subsidiaries.*

(3) *ATCO Electric Ltd. includes Electricity Distribution and Electricity Transmission. ATCO Gas and Pipelines Ltd. includes Natural Gas Distribution and Natural Gas Transmission.*

(4) *ATCO Gas and Pipelines Ltd. and ATCO Electric Ltd. (Alberta Utilities) are wholly owned subsidiaries of CU Inc., which is 100 per cent owned by Canadian Utilities Limited.*

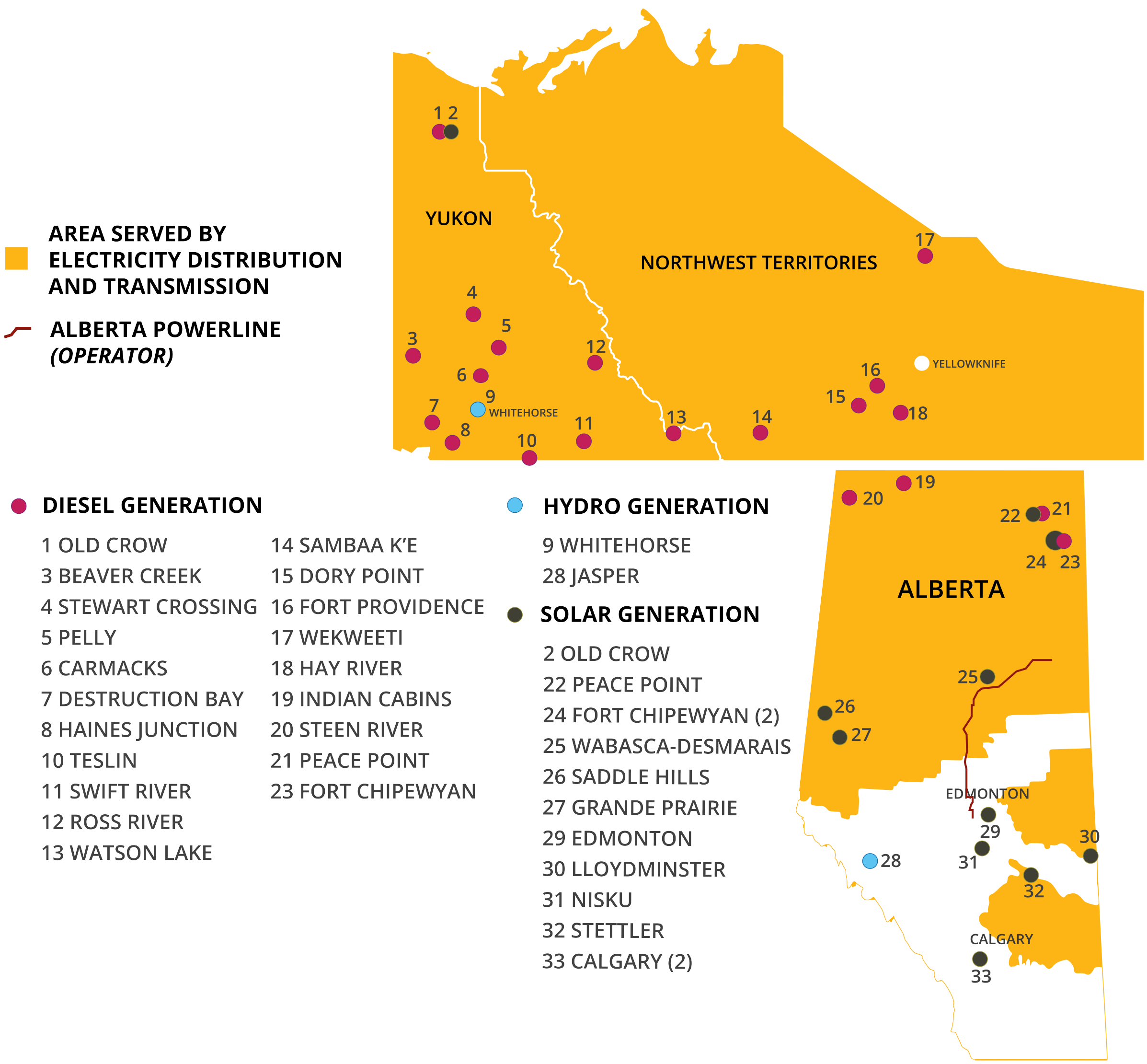
BUSINESS DESCRIPTION

The activities of the Company are conducted through the Utilities' regulated businesses in two business units within western and northern Canada: Electricity, which includes Electricity Distribution and Transmission and Natural Gas, which includes Natural Gas Distribution and Transmission.

ELECTRICITY BUSINESS UNIT

ELECTRICITY DISTRIBUTION AND TRANSMISSION

The following map shows the areas served by Electricity Distribution and Electricity Transmission, as well as the locations of electricity generation owned or operated by Electricity Distribution and Transmission, in western and northern Canada.



Electricity Distribution and Transmission transmit and deliver electricity to approximately 240 communities and rural areas in Northern and Central East Alberta. Among those served are the communities of Drumheller, Lloydminster, Grande Prairie, and Fort McMurray as well as the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River. Electricity utility service is also provided to three communities in Saskatchewan. Electricity Distribution and Transmission is headquartered in Edmonton and has 38 offices throughout its service area.

ATCO Electric Yukon (AEY) serves 19 communities in the Yukon, including the capital city of Whitehorse, and one community in British Columbia. Northland Utilities is a partnership between ATCO Ltd. and Denendeh Investments Incorporated, which represents the 27 Dene First Nations of the Northwest Territories. Northland Utilities has two operating divisions: Northland Utilities (NWT) Limited and Northland Utilities (Yellowknife) Limited (NUY). NUY and NWT serve nine communities in the Northwest Territories, including the capital city of Yellowknife.

Approximately 665,000 people live in the principal markets for electric utility service by Electricity Distribution and Transmission and its subsidiaries NUY, NWT and AEY. Service is provided to approximately 260,000 customers. Electricity Distribution and Transmission has been assigned approximately 65 per cent of the designated service area within Alberta. This service area contains approximately 14 per cent of the provincial electrical load and 13 per cent of the population.

The average monthly number of customers served by Electricity Distribution and Transmission, NUY, NWT and AEY in 2021 and 2020 are shown below.

		2021		2020
	Number	**%**	**Number**	**%**
Industrial	**9,439**	**4**	9,903	4
Commercial	**34,771**	**13**	34,652	13
Residential	**184,869**	**71**	183,858	71
Rural, REA and other	**32,291**	**12**	32,139	14
Total	**261,370**	**100**	260,552	100

Electricity distributed to the various classes of customers in 2021 and 2020 is shown below.

		2021		2020
	GWh	**%**	**GWh**	**%**
Industrial	**8,291**	**67**	7,820	65
Commercial	**2,264**	**18**	2,254	19
Residential	**1,393**	**11**	1,384	11
Rural, REA and other	**543**	**4**	554	5
Total	**12,491**	**100**	12,012	100

Electricity Distribution and Transmission, NUY, NWT and AEY own and operate extensive electricity transmission and distribution systems. The systems consist of approximately 11,000-km of transmission lines and approximately 60,000-km of distribution lines. In addition, Electricity Distribution and Transmission deliver power to, and operate approximately 3,500-km of distribution lines owned by Rural Electrification Associations (REA).

Electricity Distribution and Transmission, AEY, NUY and NWT distribute electricity to incorporated communities under the authority of franchises or by-laws. In rural areas, electricity is distributed by approvals, permits or orders under applicable statutes.

The franchises under which service is provided in incorporated communities in Alberta and the Northwest Territories have been granted for up to 20 years. These franchises are exclusive to Electricity Distribution and Transmission, NUY or NWT, and are renewable by agreement. If any franchise is not renewed, it remains in effect until either party, with the approval of the regulatory authority, terminates it on six months written notice.

On termination of a franchise, the municipality may purchase the facilities used under that franchise at a price to be agreed on or, failing agreement, to be determined by the regulatory authority. The franchise under which service is provided in the Yukon was granted under the *Public Utilities Act* (Yukon) and has no set expiry date.

Under the *Electric Utilities Act* (Alberta) (EUA), wholesale tariffs for electricity transmission must be approved by the Alberta Utilities Commission (AUC). Transmission tariffs allow any owner of a generating unit to access the Alberta transmission system and thus facilitate the sale of its power. The same transmission tariff is charged to each distribution utility or customer directly connected to the transmission system, regardless of location.

Transmission costs are equalized by having each owner of transmission facilities charge its costs to the Alberta Electric System Operator (AESO). The AESO then aggregates these costs and charges a common transmission rate to all transmission system users.

The Transmission Regulation under the EUA stipulates that new transmission projects will be assigned to transmission facility owners based on the service areas of the distribution companies they have been historically affiliated with. Facilities ownership will change at service area boundaries, except where, in the AESO's opinion, only a small portion of the project is in another service area. This rule applies to all transmission projects except inter-provincial inter-tie projects and those deemed "critical" by the Government of Alberta.

Alberta PowerLine

CU Inc. is the operator of Alberta PowerLine (APL) under a 35-year contract. APL owns a 500-km, 500-kV electricity transmission line running from Wabamun to Fort McMurray Alberta. APL is 60 per cent owned by TD Asset Management Inc. for and on behalf of TD Greystone Infrastructure Fund (Global Master) L.P., and IST3 Investment Foundation acting on behalf of its investment group IST3 Infrastruktur Global. The other 40 per cent is owned by seven Indigenous communities in Alberta: Athabasca Chipewyan First Nation, Bigstone Cree Nation, Gunn Metis Local 55, Mikisew Cree First Nation, by way of its business arm, the Mikisew Group of Companies, Paul First Nation, Sawridge First Nation and Sucker Creek First Nation.

Electricity Generation

Hydroelectric, Diesel and Solar Generation

Electricity Distribution and Transmission owns or operates 2 hydroelectric plants, 20 diesel-generating plants, and 11 solar sites with an aggregate nameplate capacity of 47-MW in Alberta, the Yukon and Northwest Territories.

The hydroelectric assets include one facility in Whitehorse and one in Jasper that each generate 1.4-MW of hydroelectric power. The diesel sites are spread throughout the Yukon, Northwest Territories and Alberta and serve remote communities that are not connected to the grid. The solar sites in Alberta include rooftop and ground mounted solar sites including the Fort Chipewyan Solar Project, the largest off-grid solar project in Canada.

Old Crow Solar Development Project

In August 2021, the Vuntut Gwitchin First Nation and CU Inc.'s parent company, Canadian Utilities announced the completion of Canada's most northerly off-grid solar project, reducing diesel use by 189,000 litres annually in Old Crow, Yukon and providing a clean energy source for decades to come.

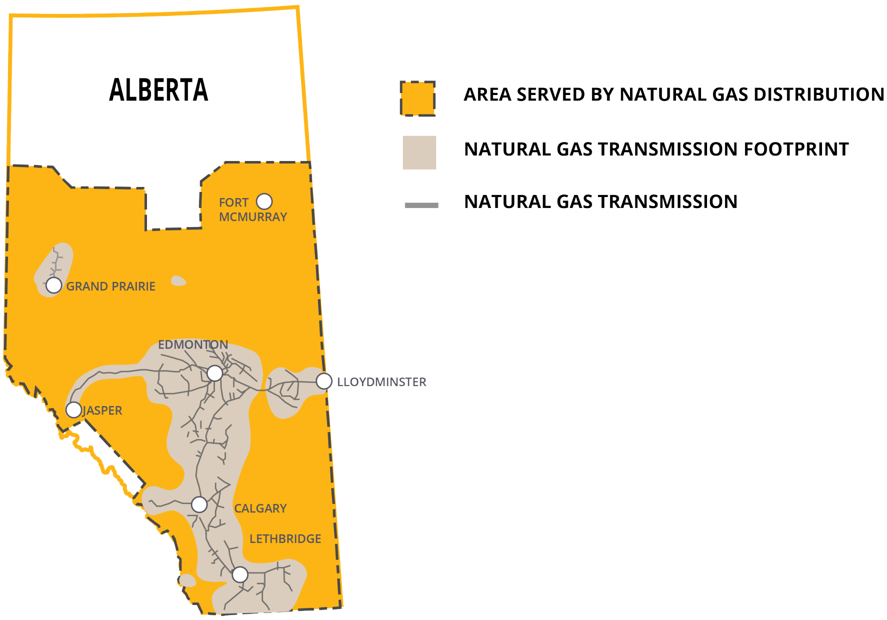
This project showcases a first-of-its-kind Electricity Purchase Agreement. Vuntut Gwitchin will serve as the Independent Power Producer, owner and operator of the solar facility and ATCO Electric Yukon will purchase the solar electricity generated for the next 25 years and feed it into the grid for redistribution to the community.

This facility, similar to the Fort Chipewyan Solar Farm in Northern Alberta, fosters community ownership and self-sustaining economic development through job creation, investment in infrastructure, and revenue from the sale of renewable energy.

Energy projects like this are models of effective collaboration to enable and accelerate the clean energy transition. The Company intends to replicate its success with many of the other Northern Communities reliant on diesel power.

NATURAL GAS BUSINESS UNIT

The following map shows the areas served by Natural Gas Distribution and Natural Gas Transmission in Alberta.



NATURAL GAS DISTRIBUTION

Natural Gas Distribution delivers natural gas throughout Alberta and in the Lloydminster area of Saskatchewan and serves approximately 1.3 million customers in nearly 300 Alberta communities.

Natural Gas Distribution's principal markets for distributing natural gas are in Edmonton, Calgary, Airdrie, Fort McMurray, Grande Prairie, Lethbridge, Lloydminster, Red Deer, Spruce Grove, St. Albert and Sherwood Park. These communities have a combined population of approximately 3.1 million people. Approximately 76 per cent of Natural Gas Distribution's customers were located in these 11 communities in 2021. Also served are 279 smaller communities as well as rural areas with a combined population of approximately 770,000.

The average monthly number of customers served by Natural Gas Distribution in 2021 and 2020 is shown below.

	2021		2020	
	Number	**%**	**Number**	**%**
Residential	**1,151,862**	**92**	1,138,609	92
Commercial	**102,021**	**8**	101,210	8
Industrial	**343**	**—**	346	—
Other (1)	**505**	**—**	384	—
Total	**1,254,731**	**100**	1,240,549	100

(1) This category has increased to 505 due to seasonal irrigation customers being kept active year-round as per AUC Decision which became effective in 2021. Previously, irrigation customers were physically turned off after the Irrigation season ended in September.

The quantity of natural gas distributed by Natural Gas Distribution in 2021 and 2020 is shown below.

	2021		2020	
	PJ	**%**	**PJ**	**%**
Residential	**127.6**	**47**	129.5	47
Commercial	**129.6**	**48**	130.7	48
Industrial	**12.9**	**5**	12.7	5
Other	**0.3**	**—**	0.2	—
Total	**270.4**	**100**	273.1	100

Natural Gas Distribution owns and operates approximately 41,000-km of distribution mains. It also owns service and maintenance facilities in major centres in Alberta.

Natural Gas Distribution delivers natural gas in incorporated communities under the authority of franchises or by-laws and in rural areas under approvals, permits or orders issued through applicable statutes. It currently has 169 franchise agreements with communities throughout Alberta. These franchise agreements detail the rights granted to natural gas distribution and its obligations to deliver natural gas services to consumers in the municipality.

All franchises are exclusive to Natural Gas Distribution and are renewable by agreement for additional periods of up to 20 years. If any franchise is not renewed, it remains in effect until either party, with the approval of the prevailing regulatory authority, terminates it on six months written notice. On termination, the municipality may purchase the facilities used in connection with that franchise at a price to be agreed on or, failing agreement, to be determined by the prevailing regulatory authority.

In Edmonton, distribution of natural gas is carried on under the authority of an exclusive franchise. Natural Gas Distribution has a 20-year franchise agreement with Edmonton that will expire on July 21, 2030. The franchises under which service is provided in other incorporated communities in Alberta have been granted for up to 20 years.

In Calgary, the distribution of natural gas operates under a municipal by-law. The rights of natural gas distribution under this by-law, while not exclusive, are unrestricted as to term. The by-law does not confer any right for Calgary to acquire the facilities used in providing the service.

Hydrogen Blending Project

CU Inc.'s blending project will use hydrogen derived from domestically-produced natural gas, with the intent to eventually leverage Alberta's existing carbon capture and sequestration infrastructure to store emissions associated with the production process. The advancement of hydrogen production in the province creates additional opportunities related to blending within existing natural gas infrastructure. These opportunities will contribute to system decarbonization and help support provincial and federal emissions targets and CU Inc. is currently pursuing pilot projects in support of these objectives. In 2020, CU Inc. advanced a hydrogen blending project in Fort Saskatchewan, Alberta, and has continued execution throughout 2021. Once complete, the project will be Canada's largest hydrogen blending project.

NATURAL GAS TRANSMISSION

Natural Gas Transmission owns and operates natural gas transmission pipelines and facilities in Alberta. The business receives natural gas on its pipeline system from various gas processing plants as well as from connections with other natural gas transmission systems. The business transports the gas to end users within the province such as local distribution utilities and industrial customers, or to other transmission pipeline systems, primarily for export out of the province.

Natural Gas Transmission owns and operates an extensive natural gas transmission system. The system currently consists of approximately 9,200-km of pipelines, 16 compressor sites, approximately 3,700 receipt and delivery points, and a salt cavern natural gas storage peaking facility near Fort Saskatchewan, Alberta. The system has 183 producer receipt points, one interconnection with Alliance Pipeline, and one interconnection with Many Islands Pipelines. Peak delivery capability of the natural gas transmission system is 4 billion cubic feet per day.

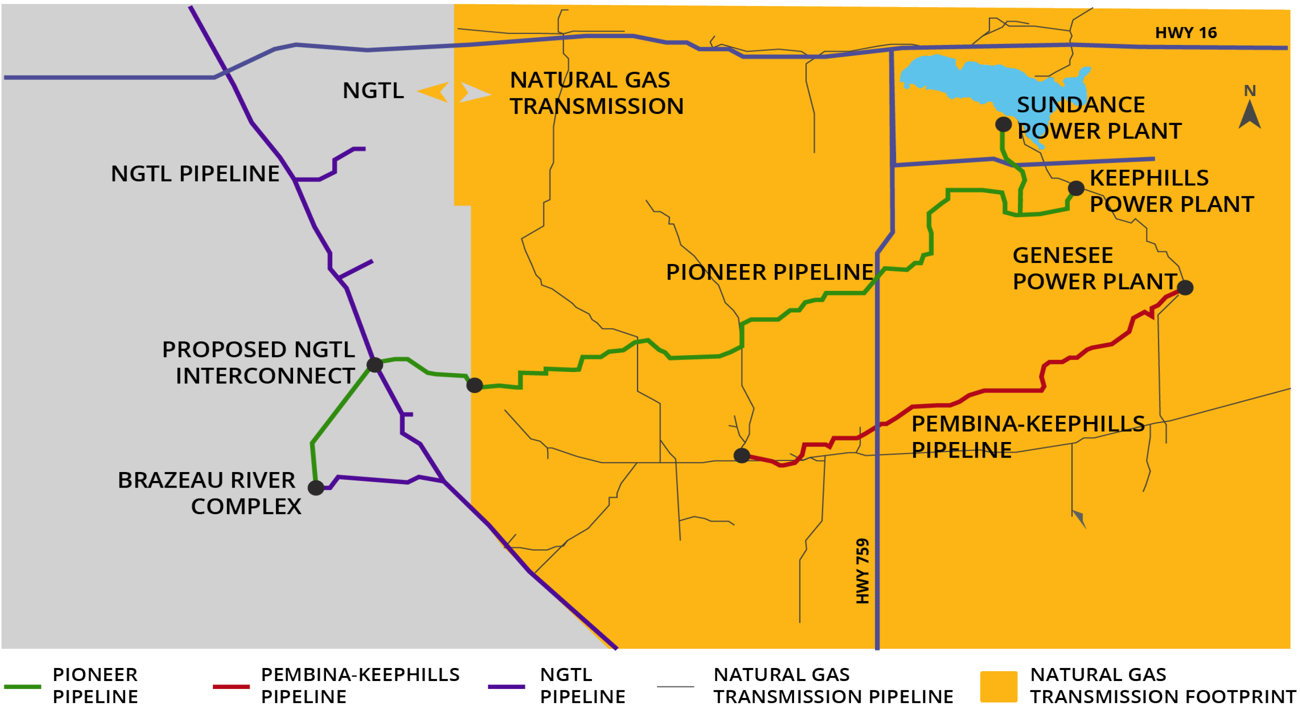
Pioneer Pipeline Acquisition

In the third quarter of 2020, Natural Gas Transmission entered into an agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. and its partner TransAlta Corporation, subject to customary conditions including regulatory approvals by the AUC and Alberta Energy Regulator.

The 131-km natural gas pipeline runs from the Drayton Valley area to the Wabamun area west of Edmonton. On June 15, 2021, the AUC issued a decision approving the acquisition of the pipeline and associated integration costs, totaling $265 million, and the corresponding revenue requirement for 2021 to be included in Natural Gas Transmission's rates.

Consistent with the geographic areas defined in the Integration Agreement, Natural Gas Transmission will transfer to Nova Gas Transmission Ltd. (NGTL) the 30-km segment of pipeline that is located in the NGTL footprint for approximately $65 million.

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 is expected to close in the first quarter of 2022. The Pioneer Pipeline has been incorporated into NGTL's and CU Inc.'s Alberta regulated natural gas transmission systems to provide reliable natural gas supply to TransAlta's power generating units at Sundance and Keephills, facilitating the conversion of these coal plants to cleaner-burning natural gas.



REGULATORY INFORMATION

The regulatory framework and recent developments are described in the "Utilities Regulatory Information" section in CU Inc.'s MD&A and is incorporated herein by reference. The MD&A may be found on SEDAR at www.sedar.com.

THREE YEAR HISTORY

Summarized below are the major events, acquisitions, dispositions, and conditions that have influenced the Company's development during the past three years.

REVENUE SUMMARY

Revenues and earnings in the Utilities business are driven by capital expenditures. Capital spending is the main contributor to rate base growth. Rate base growth is a primary driver of revenue and earnings growth. Utilities has invested $2.8 billion in capital over the last three years.

Each business unit's contribution to the Company's consolidated revenues is shown in the chart below.

Revenues (1)		2021		2020		2019
	($ millions)	%	*($ millions)*	%	*($ millions)*	%
Electricity	**1,376**	**49**	1,356	50	1,418	51
Natural Gas	**1,452**	**51**	1,377	50	1,371	49
Corporate & Other and Intersegment Eliminations	**(5)**	**—**	(3)	—	(2)	—
Total	**2,823**	**100**	2,730	100	2,787	100

(1) Data has been extracted from Note 3 ("Segmented Information") of the 2021 Consolidated Financial Statements which are prepared in accordance with International Financial Reporting Standards (IFRS). The reporting currency is the Canadian dollar.

At the end of 2019, a novel strain of coronavirus (COVID-19) emerged and spread globally. The COVID-19 pandemic and related measures taken by the authorities in the jurisdictions of the Company's operations are disrupting financial and commodity markets, supply chains, and affecting production and sales across different industries in private and public sectors.

The Company's operations, financial position and performance have not been significantly impacted in 2020 and 2021. This is primarily due to the nature of the Company's operations which are considered to be essential services. However, the extent to which COVID-19 may further impact the Company's operations, its consolidated financial position and performance remains uncertain, and will depend on further developments, including the duration and spread of the outbreak, its impact on the Company's customers, suppliers and employees and actions taken by governments.

ELECTRICITY BUSINESS UNIT

CAPITAL EXPENDITURES

Total capital expenditures for Electricity in the last three years is provided in the table below.

				Year Ended December 31
($ millions)	**Total**	**2021**	**2020**	**2019**
Electricity Distribution	675	**230**	221	224
Electricity Transmission	430	**120**	145	165
Total	1,105	**350**	366	389

Electricity Distribution and Transmission

Capital expenditures in utility infrastructure in Alberta over the past three years has included the replacement of aging infrastructure, grid modernization, new customer connections and off-diesel initiatives.

Jasper Interconnection Project

The Jasper Interconnection Project is a transmission line which connects Jasper National Park to Alberta's grid, allowing for safe and reliable electricity for the 5,000 permanent residents and 20,000 daily summer visitors. This transmission line was energized in the spring of 2019.

NATURAL GAS BUSINESS UNIT

CAPITAL EXPENDITURES

Total capital expenditures for Natural Gas in the last three years is provided in the table below.

				Year Ended December 31
($ millions)	**Total**	**2021**	**2020**	**2019**
Natural Gas Distribution	815	**294**	237	284
Natural Gas Transmission	858	**362**	203	293
Total	1,673	**656**	440	577

Natural Gas Distribution and Transmission

Capital expenditures in Natural Gas Distribution and Transmission over the past three years has been focused on the replacement of aging infrastructure, installation of new customer connections as well as the Urban Pipelines Replacement Program and the Mains Replacement Program.

Urban Pipelines Replacement Program

The Urban Pipelines Replacement (UPR) program is replacing and relocating aging, high-pressure natural gas pipelines in the densely populated areas of Calgary and Edmonton to address safety, reliability and future growth. Construction is substantially complete and the total cost of the UPR program is estimated to be approximately $910 million. Natural Gas Distribution and Natural Gas Transmission have invested approximately $900 million in the UPR program since its inception.

Mains Replacement Program

Natural Gas Distribution has two mains replacement programs which were approved in 2011, the plastic mains replacement and the steel mains program. The plastic mains replacement includes 8,000-km of polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe that are planned for replacement by 2031. Natural Gas Distribution has replaced 2,240-km of PVC and PE pipe since the approval of this program. The steel mains program includes 9,000-km of steel pipe that is monitored and continually evaluated for replacement based on the performance history. Natural Gas Distribution has replaced 348-km of steel pipe since the approval of this program.

Pembina-Keephills

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

Pembina-Keephills transmission pipeline construction, near Wabamun Lake, Alberta

Major Utility Transactions

Pioneer Pipeline

On September 30, 2020, Natural Gas Transmission entered into an agreement to acquire the Pioneer Pipeline from Tidewater Midstream & Infrastructure Ltd. (Tidewater) and its partner TransAlta Corporation (TransAlta) for a purchase price of $265 million. The 131-km natural gas pipeline runs from the Drayton Valley area to the Wabamun area west of Edmonton, Alberta. The transaction to acquire the Pioneer Pipeline closed in 2021.

NGTL and Natural Gas Transmission agreed that, consistent with the geographic areas defined in their Integration Agreement, Natural Gas Transmission would transfer to NGTL the 30-km segment of the Pioneer Pipeline located in the NGTL footprint for approximately $65 million. Natural Gas Transmission will retain ownership and continue to operate the portion of the Pioneer Pipeline located in the Natural Gas Transmission footprint. The pipeline transfer was approved by the Canada Energy Regulator on December 22, 2021.

CORPORATE & OTHER

Executive Appointment

On October 1, 2021, the Board of Directors of CU Inc. appointed Brian Shkrobot to the position of Executive Vice President & Chief Financial Officer.

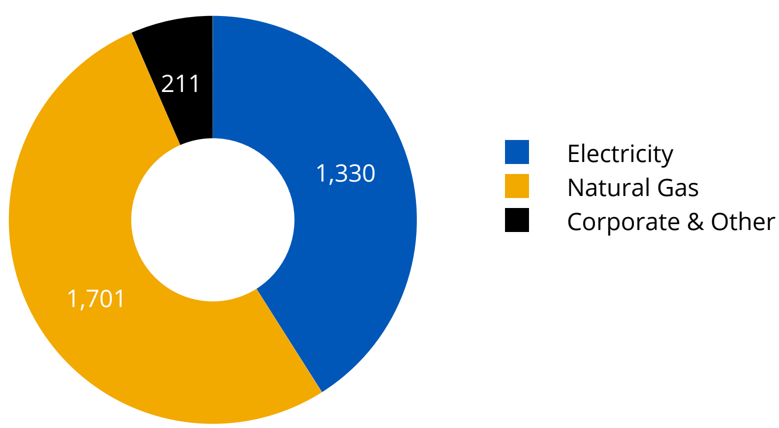
Wipro Master Service Agreement

In the fourth quarter of 2020 and first quarter of 2021, Canadian Utilities signed a Master Services Agreement (MSA) with IBM Canada Ltd. (subsequently novated to Kyndryl Canada Ltd.) and IBM Australia Limited, respectively, to provide managed information technology services. These services were previously 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 was complete by year end.

EMPLOYEE INFORMATION

At December 31, 2021, the Company had 3,242 employees. The accompanying chart represents the employee numbers in each segment.

Number of Employees



SUSTAINABILITY, CLIMATE CHANGE AND ENERGY TRANSITION

Sustainability, Climate Change and Energy Transition is described in the "Sustainability, Climate Change and Energy Transition" section in CU Inc.'s MD&A and is incorporated herein by reference. The MD&A may be found on SEDAR at www.sedar.com. ATCO's 2021 Sustainability Report will be published in May 2022.

BUSINESS RISKS

Business risks are described in the "Utilities Performance" and "Business Risks and Risk Management" sections in CU Inc.'s MD&A and are incorporated herein by reference. The MD&A may be found on SEDAR at www.sedar.com.

DIVIDENDS

Cash dividends declared during the past three years for all series and classes of shares were as follows.

(Canadian dollars per share)	Date of Issue	2021	2020	2019
Series Preferred Shares				
Series 1	Apr 18, 2007	**1.15**	1.15	1.15
Series 4 [(1)]	Dec 2, 2010	**0.57**	0.56	0.56
Class A and Class B Shares		**64.32**	72.93	66.86

(1) Effective June 1, 2021, the annual dividend rate for the Series 4 Preferred Shares was reset at 2.29 per cent for the five-year period from June 1, 2021 to May 31, 2026. Prior to the reset on June 1, 2021, the annual dividend rate was 2.24 per cent.

CAPITAL STRUCTURE

SHARE CAPITAL

The share capital of the Company at March 30, 2022 is as shown below.

Share Description	Authorized	Outstanding
Series Preferred Shares	Unlimited	7,600,000
Class A shares	Unlimited	3,570,322
Class B shares	Unlimited	2,188,262

All of the Class A and Class B shares are owned by Canadian Utilities Limited.

SERIES PREFERRED SHARES

An unlimited number of Series Preferred Shares are issuable in series, each series consisting of such number of shares and having such provisions attaching thereto as may be determined by the directors. The Series Preferred Shares as a class have, among others, provisions to the following effect:

i. The Series Preferred Shares are, with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company, entitled to preference over the Class A shares and the Class B shares and any other shares of the Company ranking junior to the Series Preferred Shares. The Series Preferred Shares may also be given such other preference over the Class A shares and the Class B shares and any other junior shares as may be determined for any series authorized to be issued.

ii. The owners of the Series Preferred Shares are not entitled as such (except as provided in any series) to any voting rights nor to receive notice of or to attend share owners' meetings unless dividends on the Series Preferred Shares of any series are in arrears to the extent of eight quarterly dividends or four half-yearly dividends, as the case may be, whether or not consecutive. Until all arrears of dividends have been paid, such owners will be entitled to receive notice of and to attend all share owners' meetings at which directors are to be elected (other than separate meetings of owners of another class of shares) and to one vote in respect of each Series Preferred Share held.

iii. The class provisions attaching to the Series Preferred Shares may be amended with the written approval of all the owners of the Series Preferred Shares outstanding or by at least two-thirds of the votes cast at a meeting of the owners of such shares duly called for the purpose and at which a quorum is present.

The following Series Preferred Shares are currently outstanding:

	Stated Value	Shares	Amount *($ millions)*
Series Preferred Shares:			
4.60% Series 1	$25.00	4,600,000	115
2.24% Series 4	$25.00	3,000,000	75
		7,600,000	190

SERIES PREFERRED SHARE REDEMPTION

Series 1 Preferred Shares

The Series 1 Preferred Shares became redeemable at the option of the Company beginning on June 1, 2012 at the stated value plus a 4 per cent premium per share for the following 12 months plus accrued and unpaid dividends. The redemption premium declined by 1 per cent in each succeeding 12-month period until June 1, 2016.

Series 4 Preferred Shares

The Series 4 Preferred Shares became redeemable at the option of the Company on June 1, 2016, and are redeemable on June 1 of every fifth year thereafter at the stated value per share plus accrued and unpaid dividends. If not redeemed, owners may elect to convert any or all of their Series 4 Preferred Shares into an equal number of Cumulative Redeemable Preferred Shares Series 5 on June 1, 2026, and on June 1 of every fifth year thereafter. Owners of the Series 5 Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board, payable quarterly at a rate equal to the then current 3-month Government of Canada Treasury Bill yield plus 1.36 per cent. On June 1, 2026 and on June 1 of every fifth year thereafter (Series 5 Conversion Date), holders of the Series 5 Preferred Shares may elect to convert any or all of their Series 5 Preferred Shares back into an equal number of Series 4 Preferred Shares. The Company may redeem the Series 5 Preferred Shares in whole or in part at $25.00 on a Series 5 Conversion Date or at $25.50 on any other date.

CLASS A SHARES AND CLASS B SHARES

The owners of the Class A shares and the Class B shares are entitled to share equally, on a share for share basis, in all dividends declared by the Company on either of such classes of shares as well as the remaining property of the Company upon dissolution. The owners of the Class B shares are entitled to vote and to exchange at any time each share held for one Class A share.

If a qualifying offer to purchase Class B shares is made to all, or substantially all owners of Class B shares, and such offer is not made concurrently to owners of Class A shares, then owners of Class A shares have the ability to convert their Class A shares into Class B shares on a one-for-one basis which Class B shares will, as a result of such conversion, be automatically tendered to the offer. Any converted for Class B shares shall be automatically converted back into Class A shares on a one-for-one basis if the owner withdraws the conversion during the term of the offer or pursuant to the terms of the offer such converted for Class B shares are not taken up.

CREDIT RATINGS

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The ratings indicate the likelihood of payment and an issuer's capacity and willingness to meet its financial commitment on an obligation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the credit rating organization.

As is customary, the Company makes payments to the credit ratings organizations for the assignment of ratings as well as other services. The Company expects to make similar payments in the future.

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost-effective access to funds required for operations and growth.

The following table shows the current credit ratings assigned to CU Inc.

	DBRS	S&P
CU Inc.		
Issuer and senior unsecured debt	A (high)	A-
Commercial paper	R-1 (low)	A-1 (low)
Preferred shares	PFD-2 (high)	P-2

On July 30, 2021, S&P Global Ratings affirmed CU Inc.'s 'A-' long-term issuer credit rating and stable outlook.

On July 22, 2021, DBRS Limited affirmed its ‘A (high)’ long-term corporate credit rating and stable outlook on CU Inc.

ISSUER CREDIT RATINGS AND LONG-TERM DEBT

An “A” issuer rating by DBRS is the third highest of ten categories. An issuer rated “A” is of good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than “AA”. A-rated issuers may be vulnerable to future events, but qualifying negative factors are considered manageable. Each rating category other than “AAA” and “D” contains the subcategories “high” and “low". The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

An “A” issuer rating by S&P is the third highest of ten categories. An entity rated “A” by S&P has a strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than an entity in higher-rated categories. Ratings from “AA” to “CCC” may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

COMMERCIAL PAPER AND SHORT-TERM DEBT CREDIT RATINGS

An “R-1 (low)” rating by DBRS is the lowest subcategory in the highest of six categories and is granted to short-term debt of good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favourable as higher rating subcategories and may be vulnerable to future events, but qualifying negative factors are considered manageable. Rating categories “R-1” and “R-2” are denoted by the subcategories “high”, “middle”, and “low”.

An “A-1 (Low)” rating by S&P is the third highest of eight categories in its Canadian commercial paper ratings scale. A short-term obligation rated “A-1 (Low)” is slightly more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitments on the obligation is satisfactory.

PREFERRED SHARE CREDIT RATINGS

A “PFD-2” rating by DBRS is the second highest of six categories granted by DBRS. Preferred shares rated in this category are generally of good credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet, and coverage ratios are not as strong as “PFD-1” rated companies. Each rating category is denoted by the subcategories “high” and “low". The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

A “P-2” rating by S&P is the second highest of eight categories S&P uses in its Canadian preferred share rating scale. An obligation rated “P-2” exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation. A “high” or “low” designation shows relative standing within a rating category. The absence of either a “high” or “low” designation indicates the rating is in the “middle” of the category.

MARKET FOR SECURITIES OF THE COMPANY

The Company's Cumulative Redeemable Preferred Shares Series 1 and Series 4 are listed on the Toronto Stock Exchange (TSX).

The following table sets forth the high and low prices and volume of the Company's shares traded on the TSX under the symbols CIU.PR.A for Series 1 shares and CIU.PR.C for Series 4 shares, during 2021.

			Series 1			Series 4
2021	**High ($)**	**Low ($)**	**Volume**	**High ($)**	**Low ($)**	**Volume**
January	24.23	23.34	38,806	13.30	10.75	21,670
February	24.42	23.60	262,874	14.50	12.11	29,800
March	24.25	23.24	107,195	16.00	14.50	53,233
April	25.00	24.24	181,621	15.15	14.17	125,852
May	25.00	24.35	49,809	16.38	14.50	206,580
June	25.04	24.60	69,458	17.48	15.00	67,087
July	25.02	24.40	114,926	15.96	15.00	29,750
August	25.25	24.68	149,185	15.96	15.00	239,735
September	25.58	25.06	599,228	16.59	15.29	106,006
October	25.69	24.71	50,751	17.97	15.55	16,950
November	25.15	23.41	32,337	18.95	16.85	137,587
December	24.88	23.70	45,435	18.95	16.90	44,000

DIRECTORS AND OFFICERS

DIRECTORS [1]

Name, Province or State and Country of Residence	Position	Position Held and Principal Occupation	Director Since
R.T. Booth [2] Alberta, Canada	Director	Partner, Bennett Jones LLP	2014
L.M. Charlton [2] Alberta, Canada	Director	Vice President & Chief Financial Officer, Lintus Resources Limited	2008
R.J. Normand [2] Alberta, Canada	Director	Corporate Director, Canadian Utilities Limited	2020
N.C. Southern Alberta, Canada	Chair & Chief Executive Officer Director	Chair & Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited	1999
L.A. Southern-Heathcott Alberta, Canada	Vice Chair & Director	President & Chief Executive Officer of Spruce Meadows Ltd.	2017

(1) All directors hold office until their successors are elected on an annual basis

(2) Member of the Audit Committee

EXECUTIVE OFFICERS (IN ALPHABETICAL ORDER)

Name, Province or State and Country of Residence	Position	Principal Occupation
M.L. Bayley Alberta, Canada	President, ATCO Electric	President, ATCO Electric Ltd.
K.M. Brunner Alberta, Canada	Vice President, Corporate Secretary	Vice President, Corporate Secretary, ATCO Ltd. and Canadian Utilities Limited
C.R. Jackson Alberta, Canada	Senior Vice President, Finance, Treasury, Risk & Sustainability	Senior Vice President, Finance, Treasury, Risk & Sustainability, ATCO Ltd. and Canadian Utilities Limited
R.A. Penrice Ontario, Canada	Executive Vice President, Corporate Services	Executive Vice President, Corporate Services, ATCO Ltd. and Canadian Utilities Limited
D.J. Sharpe Alberta, Canada	President, ATCO Gas and Pipelines	President, ATCO Gas and Pipelines Ltd.
B.P. Shkrobot Alberta, Canada	Executive Vice President & Chief Financial Officer	Executive Vice President & Chief Financial Officer, Canadian Utilities Limited
N.C. Southern Alberta, Canada	Chair & Chief Executive Officer	Chair & Chief Executive Officer, ATCO Ltd. and Canadian Utilities Limited

POSITIONS HELD BY EXECUTIVE OFFICERS WITHIN THE PRECEDING FIVE YEARS

All of the executive officers have been engaged for the last five years in the indicated principal occupations, or in other capacities with the companies or firms referred to, or with their affiliates or predecessors, except for Mr. Brunner and Ms. Penrice:

- Mr. Brunner was appointed Vice President, Corporate Secretary in September 2021. Prior to joining the Company, he was Vice President, General Counsel & Corporate Secretary at Seven Generations Energy Ltd. Mr. Brunner was at Seven Generations from February 2015 through April 2021.
- Ms. Penrice was appointed Executive Vice President, Corporate Services in January 2020. Prior to joining the Company, Ms. Penrice was Interim Chief Executive Officer for Sears Canada Inc. from August 2017 until September 2018, and Executive Vice President & Chief Operations Officer from February 2016 until August 2017.

DIRECTORS' AND OFFICERS' INTEREST IN THE COMPANY

Except as otherwise stated under the heading "Voting Securities and Principal Holder Thereof", at December 31, 2021, none of the Company's directors and officers, as a group, beneficially owned, or controlled or directed, directly or indirectly, by corporate holdings or otherwise, any of the outstanding Class B shares of the Company.

EXECUTIVE COMPENSATION

Refer to Appendix 1 for the Compensation Discussion and Analysis.

DIRECTORS' COMPENSATION

In 2021, non-employee directors of the Company were paid annual retainers for acting as directors as shown in the table below.

Directors	Annual Retainer	Audit Member	Director Totals
R.T. Booth	$6,500	$6,000	$12,500
L.M. Charlton	$6,500	$4,000	$10,500
R.J. Normand	$6,500	$4,000	$10,500
L.A. Southern-Heathcott	$6,500	—	$6,500
Total Renumeration	**$26,000**	**$14,000**	**$40,000**

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

Since January 1, 2021, there has been no indebtedness outstanding to the Company from any of its directors, executive officers, senior officers or associates of any such directors, nominees or senior officers.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Company, person or company that beneficially owns, or controls or directs, directly or indirectly, greater than 10 per cent of the Company's Class B shares, nor any associate or affiliate of the foregoing, has, or has had, any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES OR SANCTIONS

Corporate Cease Trade Orders

Except as otherwise disclosed below, no director, executive officer or controlling security holder of the Company is, as at the date of this AIF, or has been, within the past 10 years before the date hereof, a director or executive officer of any other issuer that, while that person was acting in that capacity:

i. was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or

ii. was subject to an event that resulted, after the person ceased to be a director or executive officer, in the Company being the subject of a cease trade or similar order or an order that denied the relevant company access to an exemption under securities legislation for a period of more than 30 consecutive days; or

iii. within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Nancy C. Southern was, until her resignation on August 24, 2020, a director and President of Swizzlesticks Enterprises Ltd., a private Alberta corporation operating a salon and spa in Calgary, Alberta, which on August 24, 2020, commenced proposal proceedings pursuant to the *Bankruptcy and Insolvency Act* (Canada) by filing a notice of intention to make a proposal. The corporation was declared bankrupt and a trustee was appointed on August 25, 2020. An application for the discharge of the trustee was approved on December 14, 2021.

Ms. Penrice served as Executive Vice President & Chief Operating Officer of Sears Canada Inc. (Sears) when, on June 22, 2017, Sears announced that it and certain of its subsidiaries (Sears Group) had been granted an order from the Ontario Superior Court of Justice (Commercial List) (the Court) that, among other things, granted the Sears Group protection from their creditors under the *Companies' Creditors Arrangement Act* (Canada). On June 29, 2017, Sears received notice that the Continued Listings Committee of the TSX had determined to delist Sears' common shares effective at the close of market on July 28, 2017. Sears did not appeal the decision. On October 16, 2017, Sears announced that it had received approval from the Court to proceed with a liquidation of all of its inventory and furniture, fixtures and equipment located at its remaining stores.

Personal Bankruptcies

No director, executive officer or controlling security holder of the Company has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

Penalties or Sanctions

No current director, executive officer or controlling security holder of the Company has:

i. been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, other than penalties for late filing of insider reports; or

ii. been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

Circumstances may arise where members of the Board serve as directors or officers of corporations which are in competition to the interests of the Company. No assurances can be given that opportunities identified by any such member of the Board will be provided to the Company. However, the Company's procedures provide that each director and executive officer must comply with the disclosure requirements of the *Canada Business Corporations Act* regarding any material interest. If a declaration of material interest is made, the declaring director shall not vote on the matter if put to a vote of the Board. In addition, the declaring director and executive officer may be requested to recuse himself or herself from the meeting when such matter is being discussed.

VOTING SECURITIES AND PRINCIPAL HOLDER THEREOF

The Company has 2,188,262 Class B shares outstanding, all of which are owned by Canadian Utilities. ATCO, directly or indirectly, owns 91.6 per cent of the voting securities of Canadian Utilities. The Southern family controls ATCO.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Cumulative Redeemable Preferred Shares Series 1 and Series 4 is TSX Trust Company at its principal offices in Calgary and Toronto.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is occasionally named as a party in claims and legal proceedings which arise during the normal course of its business. The Company reviews each of these claims, including the nature of the claim, the amount in dispute or claimed and the availability of insurance coverage. There can be no assurance that any particular claim will be resolved in the Company's favour or that such claim may not have a material adverse effect on the Company. For further information, please refer to Note 24 of the 2021 Consolidated Financial Statements.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business (unless otherwise required by applicable securities requirements to be disclosed), there were no material contracts entered into by the Company or its subsidiaries during the most recently completed financial year, or before the most recently completed financial year that are still in effect.

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP has prepared the auditor’s report for the Company’s 2021 Consolidated Financial Statements. PricewaterhouseCoopers LLP is independent in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

OTHER FINANCIAL AND NON-GAAP MEASURES

Other financial measures presented in CU Inc.'s MD&A consist of:

i. Adjusted earnings which are a key measure of segment earnings that are used to assess segment performance and allocate resources; and

ii. 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 CU Inc.'s MD&A. Adjusted earnings are presented in Note 3 of the 2021 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 CU Inc.'s MD&A.

Total of segments measures are most directly comparable to total earnings for the period. Comparable total of segments measures from 2020 have been calculated using the same composition and are disclosed alongside the current total of segments measures in CU Inc.'s MD&A. A reconciliation of the total of segments measures with total earnings for the period is presented in CU Inc.'s MD&A.

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

FORWARD-LOOKING INFORMATION

Certain statements contained in this AIF 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 AIF includes, but is not limited to, references to general strategic plans and targets, including with respect to project and program implementations; the enabling and acceleration of the clean energy transition; contributions to system decarbonization and support of provincial and federal emissions targets; rate base growth as a primary driver of revenue and earnings growth; the anticipated closing date of the Pioneer Pipeline transfer; and the maintenance of strong investment grade credit ratings.

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 development and performance of technology and technological innovations and the ability to otherwise access and implement all technology necessary to achieve emissions and other environmental targets; continuing collaboration with certain northern communities and regulatory 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 implement proposed or planned projects or 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 (including as may be affected by the COVID-19 pandemic); 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 renewable fuels, carbon capture, and storage, electrification of equipment powered by renewable energy sources; the occurrence of unexpected events such as fires, severe weather conditions, explosions, blow-outs, equipment failures, transportation incidents, and other accidents or similar events; and other risk factors, many of which are beyond the control of the Company. Due to the interdependencies and correlation of these factors, the impact of any one material assumption or risk on a forward-looking statement cannot be determined with certainty. Readers are cautioned that the foregoing lists are not exhaustive. For additional information about the principal risks that the Company faces, see “Business Risks and Risk Management” in the MD&A for the year ended December 31, 2021.

This AIF 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 AIF.

Any forward-looking information contained in this AIF 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

Additional information relating to the Company can be found on SEDAR at www.sedar.com.

Additional financial information is provided in the Company's audited 2021 Consolidated Financial Statements and MD&A for the financial year ended December 31, 2021.

Information relating to ATCO or Canadian Utilities may be obtained on request from Investor Relations at 3rd Floor, West Building, 5302 Forand Street SW, Calgary, Alberta, T3E 8B4, or by telephone (403) 292-7500.

GLOSSARY

AESO means Alberta Electric System Operator.

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

APL means Alberta PowerLine.

AUC means the Alberta Utilities Commission.

Board means CU Inc.'s Board of Directors.

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

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

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

Earnings means Adjusted Earnings as defined in the Other Financial and Non-GAAP Measures section of this AIF.

GAAP means Canadian generally accepted accounting principles.

Gigawatt hour (GWh) is a measure of electricity consumption equal to the use of 1 billion watts of power over a one-hour period.

IFRS means International Financial Reporting Standards.

MD&A means the Company's Management's Discussion and Analysis for the year ended December 31, 2021.

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

Petajoule (PJ) is a unit of energy equal to approximately 948.2 billion British thermal units.

REA means Rural Electrification Association. REAs are constituted under the Rural Utilities Act (Alberta) by groups of persons carrying on farming operations. Each REA purchases electric power for distribution to its members through a distribution system owned by that REA.

Terajoule (TJ) is a unit of energy equal to approximately 948.2 million British thermal units.

APPENDIX 1

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (CD&A) discusses the Company's executive compensation program, and how it is structured, governed, and designed to support the corporate business objectives.

This CD&A discloses compensation of the Chief Executive Officers, Chief Financial Officers and the next three executives that received the highest pay as of December 31, 2021 (our named executives):

- Nancy C. Southern, Chair & Chief Executive Officer
- Siegfried W. Kiefer, Honorary Director, Office of the Chair, ATCO
- Brian P. Shkrobot, Executive Vice President & Chief Financial Officer
- Donald (Jason) Sharpe, President, ATCO Gas & Pipelines
- Rebecca (Becky) A. Penrice, Executive Vice President, Corporate Services
- Melanie L. Bayley, President, ATCO Electric
- Dennis A. DeChamplain, Executive Vice President & Chief Financial Officer

In 2021, the named executives had multiple roles for CU Inc., Canadian Utilities, and ATCO, the Company's ultimate parent company. The exceptions were Jason Sharpe and Melanie L. Bayley, with 100 per cent of their compensation expenses allocated to CU Inc.

Every year, the Company apportions compensation for executives with multiple roles based on each company's contribution to total consolidated revenues, labour expenses and total assets. This allocation method, which has been approved by the Alberta Utilities Commission, represents an estimate of the amount of time the Company expects the executives will devote to each entity.

The table below shows how CU Inc., Canadian Utilities and ATCO have shared the compensation expense of executives with multiple roles over the past three years. The compensation reported in this Appendix 1, shows the amounts allocated to CU Inc.

	Amount paid and reported by CU Inc. (%)	Amount paid by Canadian Utilities (%)	Amount paid by ATCO (%)	Combined total reported by ATCO (%)
2021	**76.6**	**12.4**	**11.0**	**100**
2020	78.1	11.9	10.0	100
2019	70.7	19.2	10.1	100

EXECUTIVE COMPENSATION PROGRAM ELEMENTS

The disclosure required by items 2.1, 2.3 and 2.4 of National Instrument 51-102F6 *Statement of Executive Compensation* is set out in the ATCO Ltd. and Canadian Utilities Limited management proxy circulars dated March 9, 2022, which are incorporated herein by reference and are available on SEDAR at www.sedar.com.

2021 NAMED EXECUTIVES

Nancy C. Southern

Chair & Chief Executive Officer

Age: 65

Location: Calgary, Canada

Years of Service: 32

Ms. Southern is Chair & Chief Executive Officer of CU Inc. She has full responsibility for the Company's strategic direction and operations. Ms. Southern reports to the Board of Directors and has been a director of CU Inc. since 1999. Under Ms. Southern's guidance, CU Inc.'s total assets have grown from approximately $8 billion in 2011 to greater than $17 billion in 2021.

	2021	2020	2019
Cash			
Base salary	**766,000**	553,208	707,000
Short-term incentive[1]	**0**	1,249,600	989,800
Total cash compensation	**766,000**	1,802,808	1,696,800

1. *Ms. Southern recommended and GOCOM approved withholding bonuses for Ms. Southern and Mr. Kiefer for 2021, despite strong corporate and individual performance. Process failings were identified in 2021 that resulted in enforcement proceedings being initiated with the Alberta Utilities Commission. Ms. Southern and Mr. Kiefer had no direct involvement, but Ms. Southern and GOCOM felt it appropriate that CEO compensation should be impacted. The Company issued a news release on November 30, 2021 to describe the situation and the corrective actions being taken.*
2. *Ms. Southern and Mr. Kiefer have employment agreements with Canadian Utilities. Details regarding these agreements are set out in the Canadian Utilities Limited management proxy circular dated March 9, 2022, which is incorporated herein by reference and is available on SEDAR at www.sedar.com.*

Siegfried W. Kiefer

Honorary Director, Office of the Chair, ATCO

Age: 63

Location: Calgary, Canada

Years of Service: 39

Mr. Kiefer held the position President & Chief Executive Officer of CU Inc. until June 30, 2021. He was responsible for leading the development and execution of the Company's growth strategy, and ensuring its alignment with short and long-term objectives. Mr. Kiefer transitioned into the role of Honorary Director, Office of the Chair, ATCO until his retirement on February 28, 2022

	2021	2020	2019
Cash			
Base salary	**689,400**	702,900	627,463
Short-term incentive[1]	**0**	937,200	565,600
Total cash compensation	**689,400**	1,640,100	1,193,063

1. *Ms. Southern recommended and GOCOM approved withholding bonuses for Ms. Southern and Mr. Kiefer for 2021, despite strong corporate and individual performance. Process failings were identified in 2021 that resulted in enforcement proceedings being initiated with the Alberta Utilities Commission. Ms. Southern and Mr. Kiefer had no direct involvement, but Ms. Southern and GOCOM felt it appropriate that CEO compensation should be impacted. The Company issued a news release on November 30, 2021 to describe the situation and the corrective actions being taken.*
2. *Ms. Southern and Mr. Kiefer have employment agreements with Canadian Utilities. Details regarding these agreements are set out in the Canadian Utilities Limited management proxy circular dated March 9, 2022, which is incorporated herein by reference and is available on SEDAR at www.sedar.com.*

Brian P. Shkrobot
Executive Vice President & Chief Financial Officer
Age: 49
Location: Calgary, Canada
Years of Service: 21

Mr. Shkrobot is Executive Vice President & Chief Financial Officer of CU Inc. He is responsible for the overall financial management of CU Inc. including Finance, Accounting, Treasury, Taxation, Risk Management, Investor Relations and the administration of Internal Audit. He is also responsible for ATCO's Sustainability and Information Technology functions and Regulatory Affairs for ATCO's utilities divisions. Mr. Shkrobot joined the Company in 2000 and has held a variety of leadership positions. He was appointed to his current role in October 2021.

	2021	2020	2019
Cash			
Base salary	**348,055**	362,273	305,181
Short-term incentive	**322,700**	350,000	168,875
Total cash compensation	**670,755**	712,273	474,056

Donald (Jason) Sharpe
President, ATCO Gas & Pipelines
Age: 47
Location: Calgary, Canada
Years of Service: 19

Mr. Sharpe is President, ATCO Gas & Pipelines. He is responsible for the operational and financial performance of our Natural Gas business, maintaining a continued strong track record of operational and regulatory excellence with a focus on energy sustainability. Mr. Sharpe has held a variety of senior roles in engineering, major projects, and operations within the gas transmission and distribution businesses. He was appointed to his current role in January 2021.

	2021	2020	2019
Cash			
Base salary	**345,000**	307,500	300,000
Short-term incentive	**400,000**	285,000	150,000
Total cash compensation	**745,000**	592,500	450,000
Equity			
Mid-Term Incentive[1]	**0**	15,674	136,877
Long-Term Incentive			
Stock options	**54,420**	32,870	6,727
Share appreciation rights	**N/A**	N/A	6,727
Total equity	**54,420**	48,544	150,331
Total direct compensation	**799,420**	641,044	600,331

1. As of 2020, ATCO no longer grants awards under its MTIP and no MTIP awards are currently outstanding for our named executives.

Rebecca A. Penrice

Executive Vice President, Corporate Services

Age: 47

Location: Calgary, Canada

Years of Service: 2

Ms. Penrice is Executive Vice President, Corporate Services. She has overall responsibility for leading: Human Resources, Corporate Security, Common Services, Supply Chain and Facilities Operations, Corporate Governance & Secretarial, Corporate Marketing & Communications and Aviation. She is involved in strategic decisions which guide the evolution of the corporate culture; as well as supporting the Executive leadership team and the Board of Directors. Ms. Penrice joined the Company in 2020.

	2021	2020	2019
Cash			
Base salary	**345,658**	329,973	—
Short-term incentive	**383,000**	351,450	—
Total cash compensation	**728,658**	681,423	—

Melanie L. Bayley

President, ATCO Electric

Age: 44

Location: Edmonton, Canada

Years of Service: 21

Ms. Bayley is President, ATCO Electric. She is responsible for the operational and financial performance of the electric utility businesses in Alberta, Yukon and Northwest Territories with a strategic focus on the transformation of Canadian Utilities' electricity systems to achieve sustainable decarbonization of the grid and to enable the energy transition. Ms. Bayley joined Canadian Utilities in 2000 and has held a variety of leadership positions across the organization. She was appointed to her current role in January 2021.

	2021	2020	2019
Cash			
Base salary	**365,000**	330,000	285,000
Short-term incentive	**220,000**	300,000	150,000
Total cash compensation	**585,000**	630,000	435,000
Equity			
Mid-Term Incentive[1]	**870**	19,904	197,519
Long-Term Incentive			
Stock options	**54,420**	32,870	10,091
Share appreciation rights	**N/A**	N/A	10,091
Total equity	**55,290**	52,774	217,701
Total direct compensation	**640,290**	682,774	652,701

1. *The amount for 2021 represents the final dividend paid in 2021 under the MTIP. As of 2020, ATCO no longer grants awards under its MTIP and no MTIP awards are currently outstanding for our named executives.*

Dennis A. DeChamplain

Executive Vice President & Chief Financial Officer

Age: 57

Location: Calgary, Canada

Years of Service: 29

Mr. DeChamplain held the position of Executive Vice President & Chief Financial Officer until his passing on August 15, 2021. He was responsible for Finance, Accounting, Treasury, Taxation, Risk Management, Information Technology, Investor Relations and the administration of Internal Audit.

	2021	2020	2019
Cash			
Base salary	**316,525**	435,112	334,058
Short-term incentive[1]	**0**	624,800	226,240
Total cash compensation	**316,525**	1,059,912	560,298

1. *GOCOM applied discretion and determined that no annual bonus would be paid to Mr. DeChamplain for 2021 because process failings were identified in 2021 that resulted in enforcement proceedings being initiated with the Alberta Utilities Commission. The Company issued a news release on November 30, 2021 to describe the situation and the corrective actions being taken.*

2021 COMPENSATION DETAILS

Summary Compensation Table

The table below summarizes the total compensation allocated to the Company in accordance with the table set out on the first page of this Appendix 1 for each of the named executives for the years ended December 31, 2021, 2020 and 2019.

				Non-equity incentive plan compensation				
	Salary	Share based awards [1,2]	Option based awards [1,3,4]	Annual incentive plans [5,6]	Long term incentive plans	Pension value [7]	All Other Compensation [8]	Total Compensation
Nancy C. Southern								
Chair & Chief Executive Officer								
2021	**766,000**	**N/A**	**N/A**	**0**	**N/A**	**1,214,480**	**26,810**	**2,007,290**
2020	553,208	N/A	N/A	1,249,600	N/A	1,990,852	27,335	3,820,995
2019	707,000	N/A	N/A	989,800	N/A	(1,732,942)	24,745	(11,397)
Siegfried W. Kiefer								
Honorary Director, Office of the Chair, ATCO								
2021	**689,400**	**N/A**	**N/A**	**0**	**N/A**	**116,984**	**24,129**	**830,513**
2020	702,900	N/A	N/A	937,200	N/A	176,357	24,602	1,841,059
2019	627,463	N/A	N/A	565,600	N/A	(689,444)	21,961	525,580
Brian P. Shkrobot								
Executive Vice President & Chief Financial Officer								
2021 [9]	**348,055**	**N/A**	**N/A**	**322,700**	**N/A**	**26,932**	**12,182**	**709,869**
2020	362,273	N/A	N/A	350,000	N/A	27,830	12,680	752,783
2019	305,181	N/A	N/A	168,875	N/A	26,277	11,365	511,698
Jason Sharpe								
President, ATCO Gas & Pipelines								
2021	**345,000**	**0**	**54,420**	**400,000**	**N/A**	**29,210**	**12,075**	**840,705**
2020	307,500	15,674	32,870	285,000	N/A	27,830	10,763	679,637
2019	300,000	136,877	13,454	150,000	N/A	27,230	10,500	638,061
Becky A. Penrice								
Executive Vice President, Corporate Services								
2021	**345,658**	**N/A**	**N/A**	**383,000**	**N/A**	**22,375**	**8,641**	**759,674**
2020	329,973	N/A	N/A	351,450	N/A	21,735	8,249	711,407
2019	—	—	—	—	—	—	—	—
Melanie L. Bayley								
President, ATCO Electric								
2021	**365,000**	**870**	**54,420**	**220,000**	**N/A**	**29,210**	**12,775**	**682,275**
2020	330,000	19,904	32,870	300,000	N/A	27,830	11,550	722,154
2019	285,000	197,519	20,182	150,000	N/A	27,230	9,975	689,906
Dennis A. DeChamplain								
Executive Vice President & Chief Financial Officer								
2021	**316,525**	**N/A**	**N/A**	**0**	**N/A**	**80,066**	**10,188**	**406,779**
2020	435,112	N/A	N/A	624,800	N/A	3,832,793	15,229	4,907,934
2019	334,058	N/A	N/A	226,240	N/A	19,252	11,362	590,912

1. *With the exception of Ms. Bayley and Mr. Sharpe, whose share based and option based awards are allocated 100% to CU Inc., the disclosure regarding the named executives' equity compensation as well as information regarding the equity plans is set out in the ATCO Ltd. and Canadian Utilities Limited management proxy circulars dated March 9, 2022, as applicable, which are incorporated herein by reference and are available on SEDAR at www.sedar.com.*

2. *The grant date fair value for MTIP granted in past years was determined in consultation with our independent advisors. The accounting fair value was based on the full value share price at the time of grant and the grant date fair value used for compensation benchmarking purposes reflected a discount applied to account for performance hurdles that had to be met in order for the MTIP to vest. The share based awards value includes the dividends received during the respective calendar year. ATCO did not grant units under the mid-term incentive plan in 2020 or 2021.*

	2019	
	July	
	ATCO	Canadian Utilities
MTIP Assumptions		
Grant date fair value	28.85	23.38
Accounting fair value	44.38	35.97

3. *The option values shown for the last three years are the grant date fair values determined using the Black-Scholes method, the same method used for determining the accounting fair values. The assumptions used were as follows:*

	2021		2020		2019	
	June		December		November	
	ATCO	Canadian Utilities	ATCO	Canadian Utilities	ATCO	Canadian Utilities
Option Assumptions						
Expected life (years)	7.1	6.8	7.1	6.8	7.1	6.8
Risk free rate of return	1.10%	1.06%	0.52%	0.50%	1.47%	1.47%
Volatility	26.23%	24.09%	21.76%	22.25%	18.88%	17.53%
Dividend yield	3.93%	4.89%	4.62%	5.49%	3.25%	4.27%

The SAR values shown for past years are the grant date fair values determined using the Black-Scholes method, the same method used for determining the accounting fair values. ATCO did not grant SARs under the long-term incentive plan in 2020 or 2021. The assumptions used were as follows:

	2019	
	November	
	ATCO	Canadian Utilities
SAR Assumptions		
Expected life (years)	6.1	6.0
Risk free rate of return	1.47%	1.47%
Volatility	18.67%	18.29%
Dividend yield	3.25%	4.27%

4. *Total ATCO and Canadian Utilities stock options and share appreciation rights.*
5. *Ms. Southern recommended and GOCOM approved withholding bonuses for Ms. Southern and Mr. Kiefer for 2021, despite strong corporate and individual performance. Process failings were identified in 2021 that resulted in enforcement proceedings being initiated with the Alberta Utilities Commission. Ms. Southern and Mr. Kiefer had no direct involvement, but Ms. Southern and GOCOM felt it appropriate that CEO compensation should be impacted. The Company issued a news release on November 30, 2021 to describe the situation and the corrective actions being taken.*
6. *GOCOM applied discretion and determined that no annual bonus would be paid to Mr. DeChamplain for 2021 because the situation that is described in footnote (5) arose while he was CFO.*
7. *Estimated using a prescribed formula based on several assumptions. Also includes other compensatory items.*
8. *Employer contribution to the Employee Share Purchase Plan.*
9. *Prior to Mr. Shkrobot's appointment as Interim Senior Vice President & Chief Financial Officer of ATCO Ltd. and Canadian Utilities Limited after the passing of Dennis DeChamplain was announced on August 18, 2021, 100% of his compensation was allocated to CU Inc. Since this appointment (and his subsequent appointment on October 1, 2021 to the role of Executive Vice President & Chief Financial Officer of Canadian Utilities Limited), Mr. Shkrobot's compensation has been allocated in accordance with the table set out on page 1 of this Appendix 1.*

INCENTIVE PLAN AWARDS

With the exception of Ms. Bayley and Mr. Sharpe, whose share based and option based awards are allocated 100% to CU Inc., the disclosure regarding the named executives' equity compensation as well as information regarding the equity plans is set out in the ATCO Ltd. and Canadian Utilities Limited management proxy circulars dated March 9, 2022, as applicable, which are incorporated herein by reference and are available on SEDAR at www.sedar.com.

Outstanding Option-Based Awards

The table below shows each named executive's outstanding incentive plan awards as of December 31, 2021.

	Option-based awards								
	Number of securities underlying unexercised options (#)				Option exercise price / SARs base value ($)		Option / SARs expiration date	Value of unexercised in-the-money options / SARs[5] ($)	
	ATCO		Canadian Utilities						
	Options[1]	SARs[2]	Options[3]	SARs[4]	ATCO	Canadian Utilities		ATCO	Canadian Utilities
Jason Sharpe									
2021	2,000	N/A	10,000	N/A	45.38	35.76	2029-06-15	0	9,300
2020	2,000	N/A	10,000	N/A	38.40	32.09	2028-12-15	8,600	46,000
2019	0	0	2,000	2,000	N/A	38.97	2029-11-15	N/A	0
2018	0	0	2,000	2,000	N/A	34.13	2028-03-15	N/A	10,240
2017	0	0	2,000	2,000	N/A	38.07	2027-03-15	N/A	0
2016	0	0	1,500	1,500	N/A	36.08	2026-03-25	N/A	1,830
2015	0	0	1,000	1,000	N/A	29.97	2025-12-15	N/A	13,440
2015	0	0	1,000	1,000	N/A	40.78	2025-03-15	N/A	0
2014	0	0	1,000	1,000	N/A	39.39	2024-07-15	N/A	0
Melanie L. Bayley									
2021	2,000	N/A	10,000	N/A	45.38	35.76	2029-06-15	0	9,300
2020	2,000	N/A	10,000	N/A	38.40	32.09	2028-12-15	8,600	46,000
2019	0	0	3,000	3,000	N/A	38.97	2029-11-15	N/A	0
2018	1,000	1,000	1,000	1,000	42.08	34.13	2028-03-15	1,240	5,120
2017	1,000	1,000	1,000	1,000	48.82	38.07	2027-03-15	0	0
2016	0	0	1,500	1,500	N/A	36.08	2026-03-25	N/A	1,830
2015	0	0	1,000	1,000	N/A	40.78	2025-12-15	N/A	0
2014	0	0	1,000	1,000	N/A	38.96	2025-03-15	N/A	0

1. *Options to buy ATCO Class I Shares.*
2. *Share appreciation rights based on ATCO Class I Shares.*
3. *Options to buy Canadian Utilities Class A shares.*
4. *Share appreciation rights based on Canadian Utilities Class A shares.*
5. *The difference between the market value as at December 31, 2021, of ATCO Class I Shares ($42.70) and Canadian Utilities Class A shares ($36.69) underlying the option based awards and the exercise price of the option-based awards.*
6. *The Company no longer grants restricted shares under its MTIP (share-based awards) and no such awards are currently outstanding for our named executives. As such, the "share-based awards" portion of the previous table has been omitted.*

Incentive plan awards — value vested or earned during the year

The table below shows incentive plan awards that have vested or were earned for each named executive during 2021.

Year ended December 31, 2021	Option-based awards				Share-based awards[5]		Non-equity incentive plan compensation
	Amount vested during the year *($)*				Value vested during the year *($)*		Value earned during the year *($)*
	ATCO		Canadian Utilities		ATCO	Canadian Utilities	
	Options[1]	SARs[2]	Options[3]	SARs[4]			
Jason Sharpe	2,130	0	9,425	0	0	N/A	400,000
Melanie L. Bayley	2,130	0	9,425	0	870	N/A	220,000

1. *Options to buy ATCO Class I Shares.*
2. *Share appreciation rights based on ATCO Class I Shares.*
3. *Options to buy Canadian Utilities Class A shares.*
4. *Share appreciation rights based on Canadian Utilities Class A shares.*
5. *Represents the final dividend paid in 2021 from the 2018 and 2019 MTIP awards that were cancelled in 2020.*

PENSION PLAN

The named executives participate in the Retirement Plan for Employees of Canadian Utilities Limited and Participating Companies (CU plan), which has both a defined benefit (DB) and defined contribution (DC) component. Nancy C. Southern and Siegfried W. Kiefer participate in the DB component.

How the DB component works:

- Executives do not contribute to the plan;
- Participants can retire with full benefits when they turn 62, or if their age plus their years of service equals 90 or more. They can retire as early as age 55. However, if they have not achieved 90 points, their pension benefit is reduced by 3 per cent for every year of retirement before age 62, and by another 3 per cent for every year before age 60;
- Pension benefits are paid until the participant dies; then, 60 per cent is paid to the surviving spouse; and
- Retiree pension benefit payments have historically been increased annually with inflation, to a maximum of 3 per cent.

How we calculate the pension benefit:

[1.4% X average year's maximum pensionable earnings ($57,780 in 2021) **+** 2% X average salary (highest five consecutive years of base salary, not including short-term incentive) *minus* $57,780] **X** Years of service

Brian P. Shkrobot, Jason Sharpe, Becky A. Penrice and Melanie L. Bayley participate in, and Dennis A. DeChamplain participated in, the DC component.

How the DC component works:

- Executives do not contribute to the plan;
- The Company contributes 10 per cent of base salary up to the maximum permitted by the Income Tax Act (Canada) which was $29,210 in 2021; and
- Participants are responsible for the investment decisions in the DC plan and may invest contributions in a broad selection of funds.

SUPPLEMENTAL PENSION BENEFITS

Pension benefits under our pension plans are subject to limits imposed by the Income Tax Act (Canada). Benefits that are higher than these limits are paid to Nancy C. Southern and Siegfried W. Kiefer as a supplemental pension. This supplemental pension is provided by Canadian Utilities and benefits are not pre-funded, it is also inclusive of the benefit under the Canadian Utilities plan. Benefits are paid on the same terms as the plan, with the same survivor benefits and top-up for inflation.

How it works:

- Supplemental pension benefits are provided as a defined benefit plan
- Executives do not contribute to the supplemental plan
- Service is limited to 35 years

Nancy C. Southern's supplemental pension benefit is part of her employment agreement. Her benefits are calculated as 80 per cent of the average of the highest five years of cash compensation (salary and short-term incentives) throughout her career.

Siegfried W. Kiefer's supplemental pension benefit is part of his employment agreement. His benefits are calculated as the average of the highest consecutive five years of salary compensation. Mr. Kiefer's maximum service limit for the supplemental pension benefit is 40 years.

DEFINED BENEFIT

The table below shows the pension benefits and accrued obligations under all registered pension plans and supplemental arrangements for each of the named executives, as allocated to CU Inc.

		Annual Benefits Payable ($)					
	Number of years credited service	At year end	At age 65	Opening present value of defined benefit obligation ($)	Compensatory Change ($)	Non Compensatory Change ($)	Closing present value of defined benefit obligation ($)
Nancy C. Southern	26.00	1,568,768	1,568,768	29,964,940	1,214,480	(2,392,267)	28,787,153
Siegfried W. Kiefer	38.00	492,313	516,064	12,030,401	116,984	530,359	12,677,744
Dennis A. DeChamplain	0	0	0	4,333,356	65,150	(4,398,506)	0

(1) Mr. DeChamplain's Supplemental Employee Retirement Plan did not include a death benefit provision.

Number of years of credited service is the time the executive has been a member of the pension plan, and is used to calculate the pension.

Annual benefits payable at year end is based on the defined benefit credited service and actual average pensionable earnings at December 31, 2021. The benefits are reduced if a named executive is eligible for early retirement.

Annual benefits payable at age 65 is based on actual average pensionable earnings at December 31, 2021, and their projected service at age 65, to a maximum of 35 years service (with the exception to Supplemental Employee Retirement Plan maximum for Siegfried W. Kiefer).

The Company calculates the accrued pension obligation using the method prescribed by International Financial Reporting Standards and based on management's best estimate of future events that affect the cost of pensions, including assumptions about adjustments to base salary in the future.

The compensatory change includes the service cost, differences between actual and estimated earnings, the impact of plan amendments and past service benefits, as well as changes in expected future retirement dates.

The non-compensatory change includes interest on the obligation, the impact of assumption changes, and the impact of changing the CU Inc. allocation from 78.1 per cent in 2020 to 76.6 per cent in 2021. See Note 13, Retirement Benefits, in the Company's consolidated financial statements for the year ended December 31, 2021, for more information about the methods and assumptions used to calculate accrued obligations.

DEFINED CONTRIBUTION

The table below shows the defined contribution disclosure for the named executives, as allocated to CU Inc.

	Accumulated value at start of year ($)	Compensatory ($)	Accumulated value at year end ($)
Brian P. Shkrobot	623,414	26,932	709,201
Jason Sharpe	453,997	29,210	603,316
Becky A. Penrice	23,874	22,375	51,538
Melanie L. Bayley	529,999	29,210	615,336
Dennis A. DeChamplain	735,749	14,196	0

The compensatory amount is the Company's contribution. Participants are responsible for their investments and may invest contributions in a broad selection of funds.

TERMINATION AND CHANGE OF CONTROL

Details regarding termination and change of control that would apply to the Company's named executives, other than Mr. Sharpe and Ms. Bayley as 100 per cent of their compensation is allocated to the Company, are set out in the ATCO Ltd. and Canadian Utilities Limited management proxy circulars dated March 9, 2022, which are incorporated herein by reference and are available on SEDAR at www.sedar.com.

The table below shows incremental amounts that would be paid to Mr. Sharpe and Ms. Bayley based on differing scenarios – retirement, resignation, termination without cause and change of control without termination, assuming the triggering event took place on December 31, 2021.

	Incremental Amounts	Retirement *($)*	Resignation *($)*	Termination Without Cause *($)*	Change of Control Without Termination *($)*
Jason Sharpe					
	Cash payment				
	Option-based awards[1]				54,346
	Pension				
	Benefits				
	Perquisites				
	Total				**54,346**
Melanie L. Bayley					
	Cash payment				
	Option-based awards[1]				52,794
	Pension				
	Benefits				
	Perquisites				
	Total				**52,794**

1. *Assumes the exercise of all unvested options and share appreciation rights. Shows the estimated value of accelerated awards based on $42.70 and $36.69, the respective closing prices of ATCO Class I Shares and Canadian Utilities Class A shares on December 31, 2021.*

DIRECTOR COMPENSATION

Mr. Booth is a director of the Company as well as ATCO. The disclosure required by item 7 of National Instrument 51-102F6 *Statement of Executive Compensation* is set out in the ATCO Ltd. management proxy circular dated March 9, 2022, which is incorporated herein by reference and is available on SEDAR at www.sedar.com.

Ms. Charlton and Mr. Normand are directors of the Company as well as Canadian Utilities. The disclosure required by item 7 of National Instrument 51-102F6 *Statement of Executive Compensation* is set out in the Canadian Utilities Limited management proxy circular dated March 9, 2022, which is incorporated herein by reference and is available on SEDAR at www.sedar.com.

Ms. Southern and Ms. Southern-Heathcott are directors of the Company as well as ATCO and Canadian Utilities. Ms. Southern is an employee of the Company and does not receive compensation as a director. The disclosure required by item 7 of National Instrument 51-102F6 *Statement of Executive Compensation*, for Ms. Southern-Heathcott as it pertains to the Company, is set out in the Canadian Utilities Limited management proxy circular dated March 9, 2022, which is incorporated herein by reference and is available on SEDAR at www.sedar.com.