CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2017

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, or the Company) during the three months ended March 31, 2017.

This MD&A was prepared as of April 25, 2017, and should be read with the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2017. Additional information, including the Company's previous MD&A (2016 MD&A), Annual Information Form (2016 AIF), and audited consolidated financial statements for the year ended December 31, 2016, is available on SEDAR at www.sedar.com. Information contained in the 2016 MD&A is not discussed in this MD&A if it remains substantially unchanged.

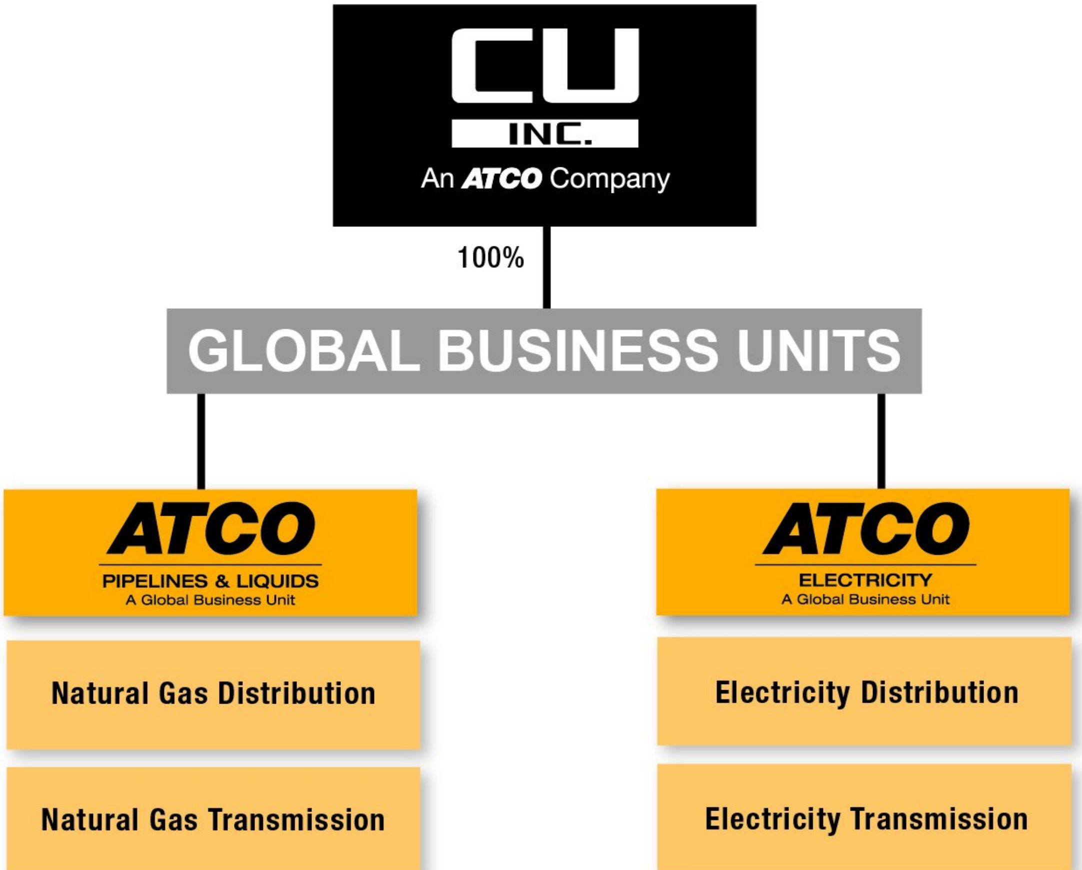
The Company is controlled by Canadian Utilities Limited, which in turn is controlled by ATCO Ltd. and its controlling share owners, Sentgraf Enterprises Ltd. and the Southern family.

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

TABLE OF CONTENTS

	Page
Organizational Structure	2
Utilities Performance	3
Regulatory Developments	4
Sustainability, Climate Change and the Environment	5
Other Expenses and Income	6
Liquidity and Capital Resources	7
Share Capital	8
Quarterly Information	9
Non-GAAP and Additional GAAP Measures	10
Reconciliation of Adjusted Earnings to Earnings for the Period	11
Other Financial Information	13
Glossary	14

ORGANIZATIONAL STRUCTURE



The unaudited interim consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The unaudited interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

UTILITIES PERFORMANCE

REVENUES

Revenues in our Utilities of $775 million in the first quarter of 2017 were $89 million higher than the same period in 2016, mainly due to rate base growth, and colder weather causing higher demand in our natural gas distribution business.

ADJUSTED EARNINGS

	Three Months Ended March 31		
($ millions)	**2017**	**2016**	**Change**
Electricity			
Electricity Distribution	**41**	37	4
Electricity Transmission	**54**	51	3
Total Electricity	**95**	88	7
Pipelines & Liquids			
Natural Gas Distribution	**81**	77	4
Natural Gas Transmission	**17**	15	2
Total Pipelines & Liquids	**98**	92	6
Total Utilities Adjusted Earnings(1)	**193**	180	13

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

Our adjusted earnings in the first quarter of 2017 were $193 million, an increase of $13 million compared to the same period in 2016. Higher earnings were mainly due to rate base growth.

Detailed information about the activities and financial results of our Utilities' businesses is provided in the following sections.

ELECTRICITY

Our Electricity activities are conducted by ATCO Electric Distribution and ATCO Electric Transmission and their subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife). These businesses provide regulated electricity distribution and transmission mainly in northern and central east Alberta, the Yukon and the Northwest Territories.

Electricity Distribution

Our electricity distribution business earned $41 million in the first quarter of 2017, $4 million higher than the same period in 2016. Higher earnings resulted primarily from growth in rate base and lower operating costs.

Electricity Transmission

Our electricity transmission business earned $54 million in the first quarter of 2017, $3 million higher than the same period in 2016. Higher earnings resulted primarily from the impact of the 2015 to 2017 General Tariff Application (GTA) Review and Variance decision received on March 16, 2017. The impact of this decision was an increase to first quarter 2017 adjusted earnings of $3 million, most of which related to prior years.

PIPELINES & LIQUIDS

Our Pipelines & Liquids activities are conducted through two regulated businesses, ATCO Gas and ATCO Pipelines.

Natural Gas Distribution

Our natural gas distribution activities throughout Alberta and in the Lloydminster area of Saskatchewan are conducted by ATCO Gas. It services municipal, residential, business and industrial customers.

Our natural gas distribution business earned $81 million in the first quarter of 2017, $4 million higher than the same period in 2016, primarily due to growth in both rate base and customers.

Natural Gas Transmission

Our natural gas transmission activities in Alberta are conducted by ATCO Pipelines. This business receives natural gas on its pipeline system at various gas processing plants as well as from other natural gas transmission systems and transports it to end users within the province or to other pipeline systems, primarily for export out of the province.

Our natural gas transmission business earned $17 million in the first quarter of 2017, $2 million higher than the same period in 2016. Higher earnings were primarily due to growth in rate base.

REGULATORY DEVELOPMENTS

NEXT GENERATION OF PERFORMANCE BASED REGULATION

On December 16, 2016, the AUC released its decision on the second generation PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates will continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements. The framework also contains modified provisions for supplemental funding of capital expenditures that are not recovered as part of the base inflation less productivity formula. Regulatory applications to determine going-in rates were filed on April 21, 2017. This decision does not apply to the transmission operations of ATCO Electric and ATCO Pipelines; these continue to be regulated under Cost of Service regulation.

ATCO ELECTRIC TRANSMISSION 2015 TO 2017 GENERAL TARIFF APPLICATION (GTA) REVIEW AND VARIANCE

On March 16, 2017, the AUC issued a decision on the Review and Variance Application relating to the 2015 to 2017 GTA. The application requested that the AUC review and vary the 2015 to 2017 GTA decision findings for severance costs, line insurance, head office allocations, 2015 capital maintenance costs and 2013-2014 tax deductions. While the decision denied the review and vary request for the tax deductions, line insurance and head office allocations, the AUC agreed with our positions on 2015 capital maintenance costs and a variety of calculation errors. The AUC also identified the need for and set a process for a second stage review of $4 million of previously disallowed severance costs. The impact of this decision was an increase to first quarter 2017 adjusted earnings of $3 million, most of which was related to prior years.

SUSTAINABILITY, CLIMATE CHANGE AND THE ENVIRONMENT

We believe that reducing our environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. Our success depends on our ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

Our 2016 Sustainability Report, expected to be released in May 2017, will be focused on key material topics including: Environmental Stewardship (climate change and energy use, and environmental compliance), Energy Stewardship (access and affordability, security and reliability, and customer satisfaction), Safety (employee health and safety, public safety, and emergency preparedness), and Community and Indigenous Relations.

CLIMATE CHANGE AND THE ENVIRONMENT

Government of Alberta's Provincial Climate Leadership Plan

As part of its Climate Leadership Plan, the Government of Alberta has published a firm target that 30 per cent of electricity used in Alberta will come from renewable sources such as wind, hydro and solar by 2030. The Government will support 5,000 MW of additional renewable energy capacity. Support will be provided to projects that are based in Alberta, are new or expanded, are greater than five MW in size, and meet the definition of renewable sources as defined by Natural Resources Canada.

On March 31, 2017 the AESO opened a Request for Expressions of Interest (REOI) for 400 MW of renewable electricity capacity for delivery in 2019 for a proposed 20 year period. An REOI information session was held on April 18, 2017 with successful proponent(s) selection scheduled for December 2017. Canadian Utilities Limited will participate in the REOI process for renewable electricity capacity.

Canadian Utilities Limited is an active participant in Alberta's electricity transformation. In October 2016, we announced the energization of Western Canada's largest off-grid solar project, located at the Saddle Hills Telecommunication Site northwest of Grande Prairie. In November 2016, we entered into an agreement with the Government of Alberta on the elimination of coal-fired emissions from the Sheerness Generating Station on or before December 31, 2030. We are also working with the Government of Alberta on the conversion of coal-fired generation to natural gas, the exploration of hydro generation, and the development of Alberta's new capacity market.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the three months ended March 31, 2017 and 2016 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 March 31		
($ millions)	**2017**	**2016**	**Change**
Operating costs	**331**	287	44
Depreciation and amortization	**119**	114	5
Net finance costs	**84**	81	3
Income taxes	**66**	55	11

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $44 million in the first quarter of 2017 when compared to the same period in 2016. Increased costs were mainly due to higher natural gas prices and colder weather causing higher demand in our natural gas distribution business.

DEPRECIATION AND AMORTIZATION

In the first quarter of 2017, depreciation and amortization expense increased by $5 million when compared to the same period in 2016. The increased expense was mainly due to the ongoing capital expenditure program in our Utilities.

NET FINANCE COSTS

Net finance costs increased in the first quarter of 2017 when compared to the same period in 2016, mainly as a result of incremental debt issued to fund the ongoing capital expenditure program in our Utilities.

INCOME TAXES

Income taxes increased in the first quarter of 2017 when compared to the same period in 2016, mainly due to higher earnings driven by continued capital expenditure and growth in rate base within our Utilities.

LIQUIDITY AND CAPITAL RESOURCES

Our financial position is supported by Utility operations. Our business strategies, funding of operations, and planned future growth are supported by maintaining strong investment grade credit ratings and access to capital markets at competitive rates. Primary sources of capital are cash flow from operations, the debt and preferred share capital markets and injections of equity from Canadian Utilities Limited.

Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

LINES OF CREDIT

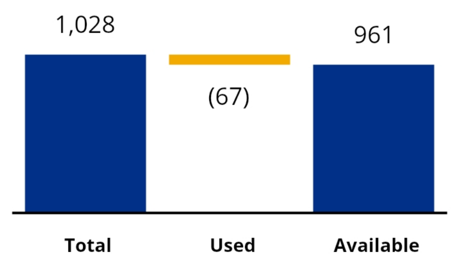
At March 31, 2017, the CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	–	900
Uncommitted	**128**	67	61
Total	**1,028**	67	961

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

The other $900 million in credit lines were committed with maturities between 2018 and 2019, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.

Lines of Credit ($ millions)



Funds Generated by Operations

Funds generated by operations were $440 million in the first quarter of 2017, compared to $407 million in the same period in 2016. The increase was mainly as a result of continued capital expenditure and rate base growth in our Utilities.

Cash Used for Capital Expenditures

Cash used for capital expenditures in the first quarter of 2017 was comparable to the first quarter of 2016.

Capital expenditures for the three months ended March 31, 2017 and 2016 is shown in the table below.

		Three Months Ended March 31	
($ millions)	**2017**	**2016**	**Change**
Electricity Distribution	**56**	56	–
Electricity Transmission	**40**	49	(9)
Natural Gas Distribution	**53**	60	(7)
Natural Gas Transmission	**57**	41	16
Total (1)	**206**	206	–

(1) Includes additions to property, plant and equipment, intangibles and $4 million (2016 - $4 million) of interest capitalized during construction for the quarter ended March 31, 2017.

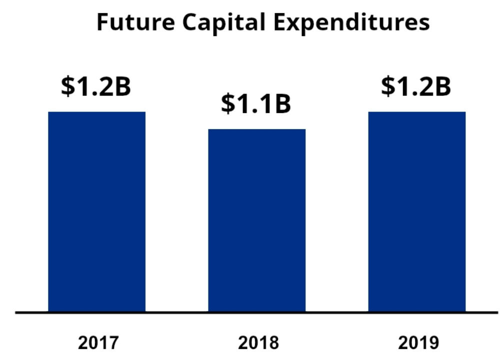
Base Shelf Prospectuses

On May 16, 2016, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of April 24, 2017, aggregate issuances of debentures were $375 million.

Future Capital Expenditures Plans

In the period 2017 to 2019, we expect to invest approximately $3.5 billion in regulated utility capital growth projects. This capital expenditure is expected to contribute significant earnings and cash flow.

Our electricity distribution and transmission businesses are planning to invest $1.8 billion, and our natural gas distribution and transmission businesses are planning to invest $1.7 billion.



SHARE CAPITAL

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

At April 24, 2017, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended June 30, 2015 through March 31, 2017.

($ millions)	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Revenues	571	578	738	**775**
Earnings for the period	78	82	152	**175**
Adjusted earnings				
Electricity	86	66	77	**95**
Pipelines & Liquids	24	3	65	**98**
Total adjusted earnings	110	69	142	**193**
($ millions)	**Q2 2015**	**Q3 2015**	**Q4 2015**	**Q1 2016**
Revenues	546	504	659	686
Earnings for the period	24	55	81	149
Adjusted earnings				
Electricity	87	72	44	88
Pipelines & Liquids	16	(2)	62	92
Total adjusted earnings	103	70	106	180

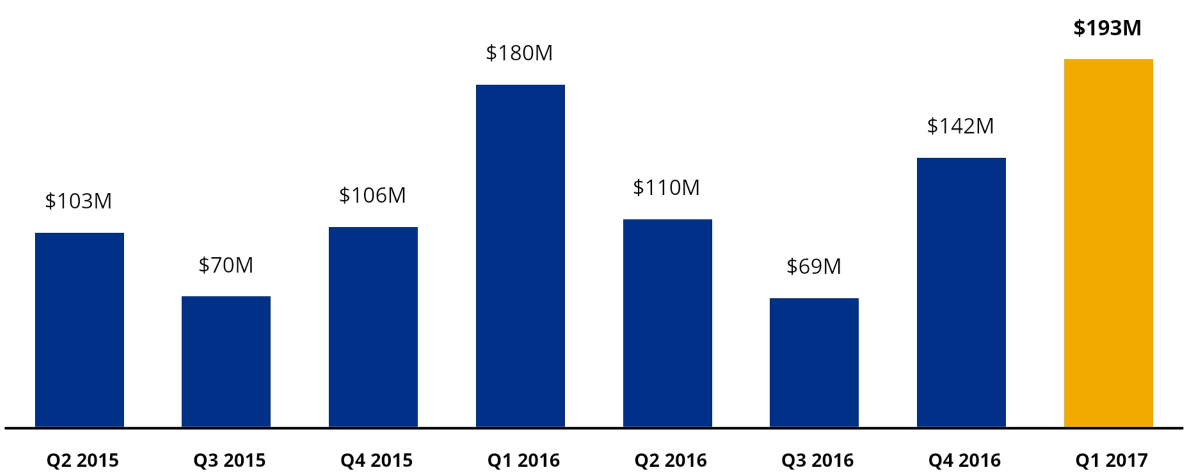
Adjusted Earnings

The general increase in our adjusted earnings over the previous eight quarters reflects the large capital expenditure made by the Utilities. These investments earn a return under a regulated business model and drive growth in adjusted earnings. Our earnings have also been affected by the timing of certain major regulatory decisions. In addition, interim results will vary due to the seasonal nature of demand for electricity and natural gas.

In 2015, earnings were lower in the third quarter due to higher operations and maintenance costs, and lower seasonal demand in our natural gas distribution business. Lower earnings in the fourth quarter were mainly due to regulatory lag which required an update to forecast costs as compared to prospective costs originally filed in electricity transmission's GTA.

In 2016, higher earnings were mainly due to continued capital expenditure and growth in rate base and business-wide cost reduction initiatives. Earnings were lower in the third quarter due to the financial impact of electricity transmission's GTA decision.

In 2017, higher earnings were mainly due to rate base growth.



NON-GAAP AND ADDITIONAL GAAP MEASURES

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

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

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings for the period is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 of our 2017 unaudited interim consolidated 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, significant impairments, and items that are not in the normal course of business or a result of day-to-day operations.

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

($ millions)			**Three Months Ended March 31**
2017			
2016	**Electricity**	**Pipelines & Liquids**	**Consolidated**
Revenues	**338**	**437**	**775**
	346	340	686
Adjusted earnings	**95**	**98**	**193**
	88	92	180
Rate-regulated activities	**(39)**	**18**	**(21)**
	(7)	(27)	(34)
Dividends on equity preferred shares of the Company	**2**	**1**	**3**
	2	1	3
Earnings for the period	**58**	**117**	**175**
	83	66	149

RATE-REGULATED ACTIVITIES

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.

As a result, the Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of generally accepted accounting principles (GAAP) to account for rate-regulated activities in its internal reporting provided to the Chief Operating Decision Maker (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 regulators' decisions on revenues.

Earnings adjustments to reflect rate-regulated accounting are shown in the following table.

	Three Months Ended March 31		
($ millions)	**2017**	**2016**	**Change**
Additional revenues billed in current period			
Future removal and site restoration costs [(1)]	**19**	17	2
Revenues to be billed in future periods			
Deferred income taxes [(2)]	**(29)**	(28)	(1)
Impact of warmer temperatures [(3)]	**–**	(17)	17
Settlement of regulatory decisions and other items	**(11)**	(6)	(5)
	(21)	(34)	13

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

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

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

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

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
Additional revenues billed in current period	Future removal and site restoration costs.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes and impact of warmer temperatures.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	For further details on regulatory decisions that caused a timing adjustment financial impact, refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the 2017 unaudited interim consolidated financial statements.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

For further details on additional revenues billed in the current period, revenues to be billed in future periods, and settlement of regulatory decisions and other items, refer to the Segmented Information presented in Note 3 of the 2017 unaudited interim consolidated financial statements.

OTHER FINANCIAL INFORMATION

ACCOUNTING CHANGES

There were no new or amended standards issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) in the first quarter of 2017 that the Company anticipates will have a material effect on the unaudited interim consolidated financial statements or note disclosures.

CONTROLS AND PROCEDURES

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, 2017, and ended on March 31, 2017, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD LOOKING INFORMATION

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

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

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

GLOSSARY

AUC means the Alberta Utilities Commission.

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, President and Chief Executive Officer, and five other senior executives.

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

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

GAAP means Canadian generally accepted accounting principles.

IFRS means International Financial Reporting Standards.

PBR means Performance Based Regulation.

Utilities means ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas and ATCO Pipelines.