CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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, us, or the Company) during the nine months ended September 30, 2017.

This MD&A was prepared as of October 25, 2017, and should be read with the Company's unaudited interim consolidated financial statements for the nine months ended September 30, 2017. Additional information, including the Company's prior MD&As, 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.

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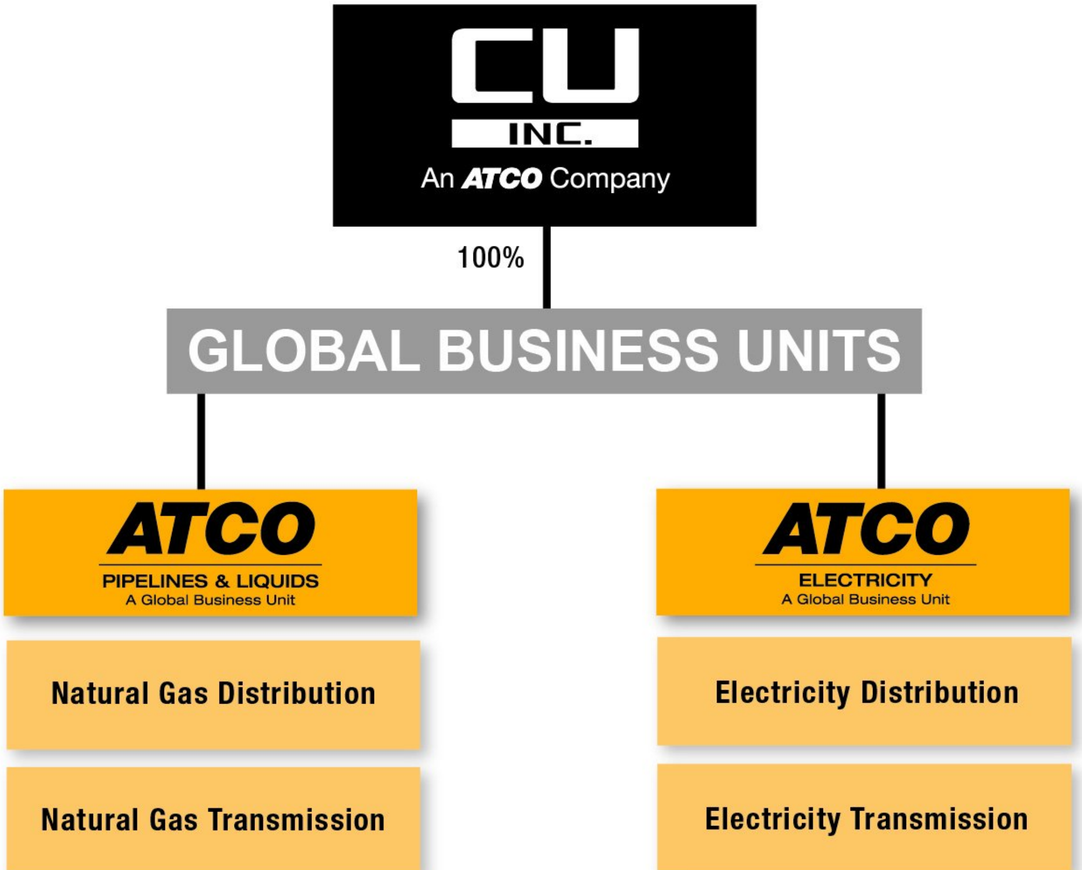
ORGANIZATIONAL STRUCTURE



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 $567 million in the third quarter of 2017 were $11 million lower than the same period in 2016, mainly due to the impact of the 2015 to 2017 General Tariff Application (GTA) decision in our electricity transmission business. Revenues of $1,930 million in the first nine months of 2017 were $95 million higher than the same period in 2016, mainly due to growth in rate base and higher flow-through franchise fees paid to municipalities, which are recovered from customers.

ADJUSTED EARNINGS

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Electricity						
Electricity Distribution	**32**	28	4	**104**	101	3
Electricity Transmission	**42**	38	4	**146**	139	7
Total Electricity	**74**	66	8	**250**	240	10
Pipelines & Liquids						
Natural Gas Distribution	**(7)**	(12)	5	**84**	75	9
Natural Gas Transmission	**17**	15	2	**51**	44	7
Total Pipelines & Liquids	**10**	3	7	**135**	119	16
Total Utilities Adjusted Earnings[1]	**84**	69	15	**385**	359	26

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

In the third quarter and first nine months of 2017, our Utilities earned $84 million and $385 million, $15 million and $26 million higher than the same periods in 2016. Higher earnings were mainly due to continued capital investment and growth in rate base.

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 $32 million in the third quarter and $104 million in the first nine months of 2017, $4 million and $3 million higher than the same periods in 2016. Higher earnings were primarily due to continued capital investment and growth in rate base.

Electricity Transmission

Our electricity transmission business earned $42 million in the third quarter and $146 million in the first nine months of 2017, $4 million and $7 million higher than the same periods in 2016. Higher earnings were primarily due to continued capital investment and growth in rate base.

In the third quarter of 2017, the AUC issued a decision on the 2013 to 2014 Deferral Accounts Application. While the decision approved the inclusion of the vast majority of capital expenditures into rate base, it resulted in a decrease to third quarter adjusted earnings of $7 million, mainly due to lower taxes paid that will be refunded to customers, all of which related to years prior to 2017. In the second quarter of 2017, the AUC delivered the 2015 to 2017 General Tariff Application (GTA) Compliance decision which lowered second quarter 2017 adjusted earnings by $7 million, of which $6 million related to prior periods. Excluding the prior period impacts of these retroactive regulatory decisions, adjusted earnings in the third quarter and first nine months of 2017 were $49 million and $159 million on a normalized basis.

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.

In the third quarter and first nine months of 2017, earnings from our natural gas distribution business were $5 million and $9 million higher than the same periods in 2016, mainly 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 third quarter and $51 million in the first nine months of 2017, $2 million and $7 million higher than the same periods in 2016. Higher earnings were mainly due to growth in rate base.

REGULATORY DEVELOPMENTS

GENERIC COST OF CAPITAL (GCOC)

On July 5, 2017, the AUC established a full proceeding schedule for a 2018, 2019 and 2020 GCOC proceeding. Submissions are scheduled to be filed October 31, 2017 with a hearing set for March 2018. The AUC has indicated its intention to issue a decision prior to the end of 2018.

ATCO ELECTRIC TRANSMISSION 2013 to 2014 DEFERRAL ACCOUNTS APPLICATION

On September 20, 2017, the AUC issued a decision on ATCO Electric Transmission's 2013 to 2014 Deferral Accounts Application. The Application included $824 million of capital expenditures for the 35 direct-assigned AESO projects that went into service in 2013 and 2014. While the decision approved the inclusion of the vast majority of the capital expenditures into rate base, it resulted in a decrease to third quarter 2017 adjusted earnings of $7 million, mainly lower taxes paid that will be refunded to customers, all of which relates to years prior to 2017.

ATCO PIPELINES 2017 to 2018 GENERAL RATE APPLICATION (GRA)

On August 29, 2017, ATCO Pipelines received a decision from the AUC regarding its 2017 to 2018 GRA. The decision largely approved the application as filed, with the exception of some changes to PP&E depreciation rates. ATCO Pipelines rates are in place on a prospective basis until the end of 2018.

UTILITY ASSET DISPOSITION

On October 11, 2017, the Alberta Department of Energy commenced its Utility Asset Disposition (UAD) Stakeholder Engagement process to review the allocation of gains and losses associated with utility assets that are no longer used or useful for utility service. This includes assets that are sold to third parties, transferred to non-utility use, or are stranded by unforeseen events or obsolescence. Following the engagement process, a policy recommendation will be made to the Government of Alberta with any legislative changes expected to be made in the spring of 2018.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the third quarter and first nine months of 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 September 30			Nine Months Ended September 30		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Operating costs	**264**	265	(1)	**865**	823	42
Depreciation and amortization	**116**	118	(2)	**353**	344	9
Net finance costs	**83**	82	1	**250**	244	6
Income taxes	**28**	31	(3)	**125**	115	10

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, were $264 million in the third quarter of 2017, comparable to the third quarter of 2016. In the first nine months of 2017, operating costs increased by $42 million mainly due to higher natural gas prices and colder weather causing higher demand in our natural gas distribution business.

DEPRECIATION AND AMORTIZATION

In the third quarter of 2017, depreciation and amortization expense decreased by $2 million when compared to the same period in 2016. The decrease was mainly due to a reduction in depreciation rates in ATCO Pipelines, which reflects an increase in life expectancy for gas transmission assets. In the first nine months of 2017, depreciation and amortization expense increased by $9 million when compared to the same period in 2016, mainly due to the ongoing capital expenditure program in our Utilities.

NET FINANCE COSTS

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

INCOME TAXES

Income taxes decreased in the third quarter of 2017 when compared to the same period in 2016, mainly due to lower earnings. Income taxes increased in the first nine months of 2017 when compared to the same period in 2016, mainly due to higher earnings.

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.

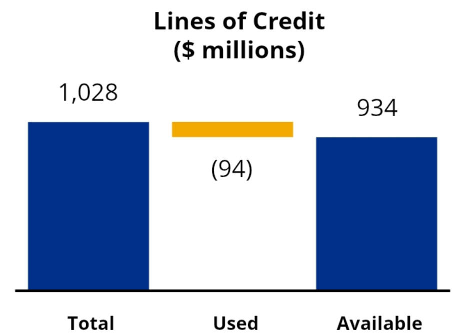
LINES OF CREDIT

At September 30, 2017, CU Inc. and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	25	875
Uncommitted	**128**	69	59
Total	**1,028**	94	934

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.



CONSOLIDATED CASH FLOW

At September 30, 2017, our cash deficit was $46 million, a decrease of $70 million from December 31, 2016. The decrease is mainly due to cash used to fund our capital expenditure program, and higher interest paid on the debt issued to fund these capital expenditures.

Funds Generated by Operations

Funds generated by operations (see the Non-GAAP and Additional GAAP Measures section of this MD&A) were $303 million in the third quarter of 2017, $8 million lower than the same period in 2016, mainly due to lower earnings. Funds generated by operations of $1,073 million in the first nine months of 2017 were $50 million higher than the same period in 2016, mainly as a result of continued capital expenditure and rate base growth in our Utilities.

Cash Used for Capital Expenditures

Capital expenditures in the third quarter and first nine months of 2017 were comparable to the same periods in the prior year.

Capital expenditures for the third quarter and first nine months of 2017 and 2016 are shown in the table below.

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Electricity Distribution	**55**	66	(11)	**161**	184	(23)
Electricity Transmission	**46**	47	(1)	**128**	160	(32)
Natural Gas Distribution	**106**	89	17	**259**	244	15
Natural Gas Transmission	**88**	60	28	**188**	137	51
Total (1)	**295**	262	33	**736**	725	11

(1) Includes additions to property, plant and equipment, intangibles and $4 million and $13 million (2016 - $5 million and $13 million) of interest capitalized during construction for the third quarter and first nine months of 2017.

Base Shelf Prospectuses

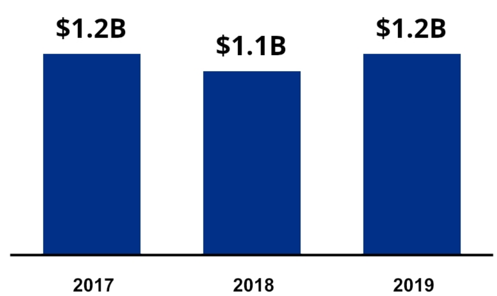
On May 16, 2016, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of October 24, 2017, aggregate issuances of debentures were $375 million, all of which were issued in 2016.

Future Capital Expenditures Plans

In the period 2017 to 2019, we expect to invest approximately $3.5 billion in 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.

Future Capital Expenditures



SHARE CAPITAL

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

At October 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 December 31, 2015 through September 30, 2017.

($ millions)	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Revenues	738	775	588	**567**
Earnings for the period	152	175	86	**76**
Adjusted earnings				
Electricity	77	95	81	**74**
Pipelines & Liquids	65	98	27	**10**
Total adjusted earnings	142	193	108	**84**

($ millions)	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Revenues	659	686	571	578
Earnings for the period	81	149	78	82
Adjusted earnings				
Electricity	44	88	86	66
Pipelines & Liquids	62	92	24	3
Total adjusted earnings	106	180	110	69

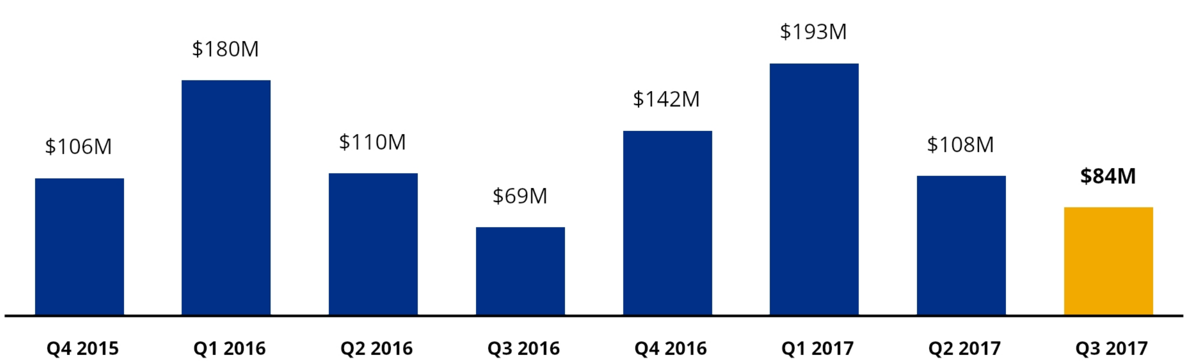
Adjusted Earnings

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, lower earnings in the fourth quarter were mainly due to regulatory lag which required an update to the forecast costs as compared to prospective costs originally filed in electricity transmission's 2015 to 2017 General Tariff Application.

In 2016, higher earnings were primarily due to continued capital investment and rate base growth and business-wide cost reduction initiatives. Lower earnings in the third quarter were due to the financial impact of electricity transmission's 2015 to 2017 GTA regulatory decision and lower seasonal demand in our natural gas distribution business.

In 2017, higher earnings in the first nine months of the year were mainly due to rate base growth. Higher first quarter earnings were in part due to lower operating costs. Lower second quarter earnings were in part due to the timing of operating and other costs in electric distribution, and the impact of the 2015 to 2017 GTA Compliance decision in electric transmission. Lower third quarter earnings were in part due to the impact of the 2013 to 2014 Deferral Accounts decision in electric transmission.



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 September 30
2017				
2016	**Electricity**	**Pipelines & Liquids**	**Intersegment Eliminations**	**Consolidated**
Revenues	**313**	**255**	**(1)**	**567**
	335	243	–	578
Adjusted earnings	**74**	**10**	**–**	**84**
	66	3	–	69
Rate-regulated activities	**(19)**	**8**	**–**	**(11)**
	9	2	–	11
Dividends on equity preferred shares of the Company	**1**	**2**	**–**	**3**
	1	1	–	2
Earnings for the period	**56**	**20**	**–**	**76**
	76	6	–	82

($ millions)				Nine Months Ended September 30
2017				
2016	**Electricity**	**Pipelines & Liquids**	**Intersegment Eliminations**	**Consolidated**
Revenues	**952**	**979**	**(1)**	**1,930**
	1,004	831	–	1,835
Adjusted earnings	**250**	**135**	**–**	**385**
	240	119	–	359
Rate-regulated activities	**(80)**	**24**	**–**	**(56)**
	(13)	(45)	–	(58)
Dividends on equity preferred shares of the Company	**4**	**4**	**–**	**8**
	4	4	–	8
Earnings for the period	**174**	**163**	**–**	**337**
	231	78	–	309

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 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 regulators' decisions on revenues.

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

	Three Months Ended September 30			Nine Months Ended September 30		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**16**	16	–	**54**	51	3
Revenues to be billed in future periods						
Deferred income taxes (2)	**(19)**	(17)	(2)	**(73)**	(68)	(5)
Impact of warmer temperatures (3)	**(1)**	(1)	–	**(4)**	(28)	24
Regulatory decisions received	**9**	14	(5)	**16**	14	2
Settlement of regulatory decisions and other items	**(16)**	(1)	(15)	**(49)**	(27)	(22)
	(11)	11	(22)	**(56)**	(58)	2

(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 third 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 July 1, 2017, and ended on September 30, 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.

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