



An **ATCO** Company

CU INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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 six months ended June 30, 2018.

This MD&A was prepared as of July 25, 2018, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2018. Additional information, including the Company's previous MD&As, Annual Information Form (2017 AIF), and audited consolidated financial statements for the year ended December 31, 2017, is available on SEDAR at www.sedar.com. Information contained in the 2017 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. (ATCO) and its controlling share owners, Sentgraf Enterprises Ltd. and the Southern family.

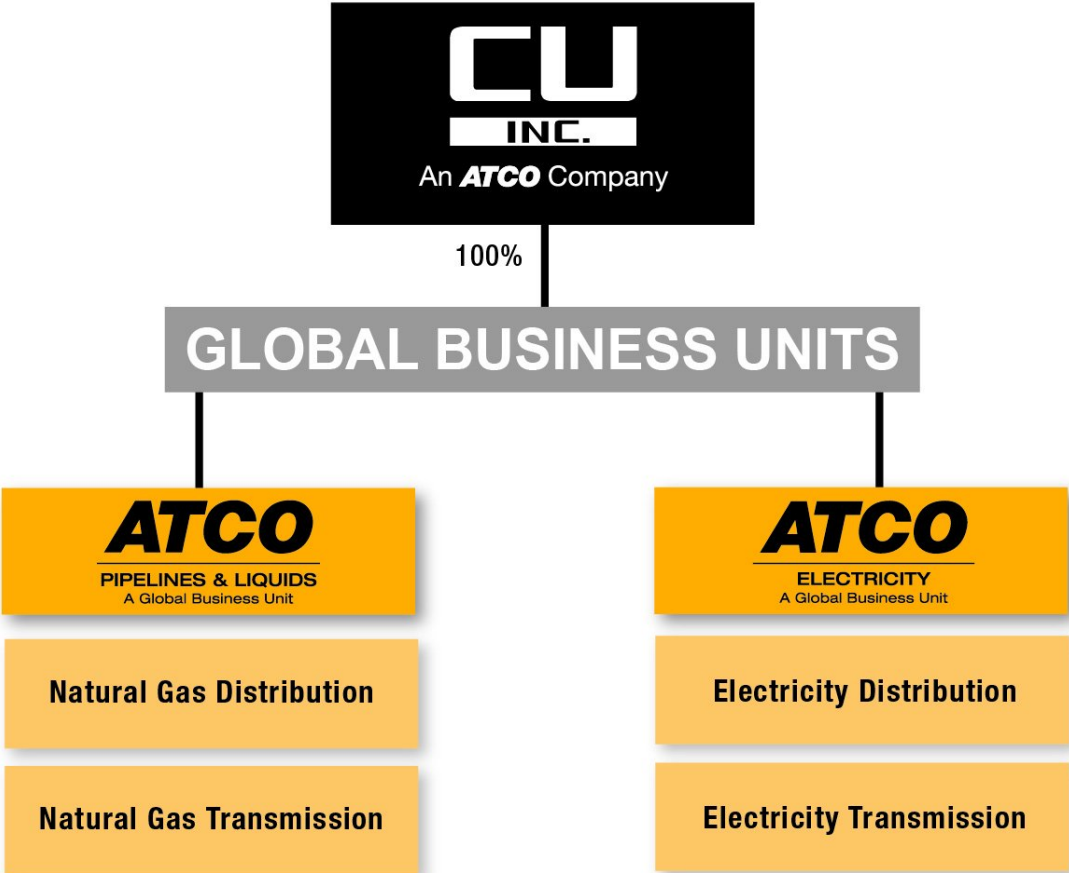
Terms used throughout this MD&A are defined in the Glossary at the end of this document.

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ORGANIZATIONAL STRUCTURE

SIMPLIFIED 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 \$532 million in the second quarter of 2018 and \$1,283 million in the first half of 2018 were \$56 million and \$80 million lower than the same periods in 2017, mainly due to lower flow-through revenues in natural gas distribution for third party transmission rate recovery from customers as well as the impact of Performance Based Regulation rate rebasing in natural gas distribution and electric distribution.

ADJUSTED EARNINGS

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Electricity						
Electricity Distribution	27	31	(4)	60	72	(12)
Electricity Transmission	50	50	-	90	104	(14)
Total Electricity	77	81	(4)	150	176	(26)
Pipelines & Liquids						
Natural Gas Distribution	(3)	10	(13)	64	91	(27)
Natural Gas Transmission	18	17	1	36	34	2
Total Pipelines & Liquids	15	27	(12)	100	125	(25)
Total Utilities Adjusted Earnings⁽¹⁾	92	108	(16)	250	301	(51)

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

In the second quarter and first half of 2018, our Utilities earned \$92 million and \$250 million, \$16 million and \$51 million lower than the same periods in 2017. Lower earnings were mainly due to rate rebasing under Alberta's regulated model in electricity distribution and natural gas distribution, along with lower interim rates in our electric transmission business, partially offset by growth in rate base across the utilities.

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 \$27 million and \$60 million in the second quarter and first half of 2018, \$4 million and \$12 million lower than the same periods in 2017. Lower earnings were mainly due to the impact of operating cost reduction initiatives over the first generation Performance Based Regulation (PBR) period flowing into customer rates under the 2018 to 2022 second generation PBR framework. The lower earnings from PBR rebasing were partially offset by earnings from continued growth in rate base and additional return on equity (ROE) due to the efficiency carry-over mechanism incentive granted to distribution utilities in the first two years of the second generation PBR for demonstrating superior cost savings in the prior PBR period.

Electricity Transmission

Our electricity transmission business earned \$50 million in the second quarter of 2018, comparable to the same period in 2017.

Earnings of \$90 million in the first half of 2018 were \$14 million lower than the same period in 2017. Lower earnings were mainly due to the impact of operating cost reduction initiatives flowing into customer rates in the 2018 to 2019

General Tariff Application (GTA) and lower interim rates approved by the AUC. Upon receipt of the AUC's decision on the 2018 to 2019 GTA, which is expected in the first quarter of 2019, existing interim rates will be updated to include the impact of the decision.

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 earnings in the second quarter and first half of 2018 were \$13 million and \$27 million lower than the same periods in 2017. Lower earnings were mainly due to the impact of operating cost reduction initiatives over the first generation PBR period flowing into customer rates under the 2018 to 2022 second generation PBR framework. The lower earnings from PBR rate rebasing were partially offset by earnings from growth in rate base and additional ROE due to the efficiency carry-over mechanism incentive granted to distribution utilities in the first two years of the second generation PBR for demonstrating superior cost savings in the prior PBR period.

Natural Gas Transmission

Our natural gas transmission activities in Alberta are conducted by ATCO Pipelines. This business 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 or to other pipeline systems, primarily for export out of the province.

Our natural gas transmission business earned \$18 million in the second quarter and \$36 million in the first half of 2018, \$1 million and \$2 million higher compared to the same periods in 2017. Higher earnings were mainly due to continued growth in rate base.

REGULATORY DEVELOPMENTS

PBR RE-OPENER

In June 2018, the AUC initiated a process for electricity distribution and natural gas distribution as the re-opener clause was triggered by both utilities in 2017, the final year of the first generation PBR plan. The PBR re-opener thresholds are triggered if a utility's earnings are +/- 500 bps from the approved ROE in one year or +/- 300 bps from approved ROE in two consecutive years. The AUC has determined that it will proceed with a two-phase process. Within the first phase of the proceeding, the Commission will determine whether a re-opener of the utilities' 2013 to 2017 plans is warranted, and if warranted, it will outline the scope of the second phase.

UTILITY ASSET DISPOSITION

In April 2018, the Government of Alberta introduced Bill 13, An Act to Secure Alberta's Electricity Future, for first reading. Components of the bill, as originally proposed, would have significantly impacted key regulatory principles and current law with respect to the recovery of prudently incurred costs, retroactive ratemaking, and utility asset dispositions.

In May 2018, the Government of Alberta amended Bill 13 by removing section 1(2), which was the section of the Bill discussing the disposition of utility assets. The motion to amend Bill 13 was passed by the Alberta Legislature on May 30, 2018.

Z FACTOR DECISION (REGIONAL MUNICIPALITY OF WOOD BUFFALO WILDFIRE)

In June 2018, the AUC issued a decision on natural gas distribution's Z factor application for the recovery of costs and lost revenues associated with the 2016 Wood Buffalo wildfire near Fort McMurray, Alberta. Substantially all requested costs and lost revenues were approved as filed.

ATCO ELECTRIC 2018-2019 GENERAL TARIFF APPLICATION (GTA)

In June 2017, Electric Transmission filed a GTA for its operations for 2018 and 2019. The application requests, among other things, additional revenues to recover higher depreciation, operating costs and financing associated with increased rate base in Alberta. In December 2017, the AUC issued its decision on the interim tariff for 2018 which set an interim tariff based on a continuation of the 2017 revenue requirement. The AUC final decision on this application is expected in the first quarter of 2019.

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

ATCO, the controlling share owner of CU Inc., has been publishing external sustainability reports since 2008. These reports include CU Inc.'s operations sustainability performance data. The ATCO 2017 Sustainability Report, published in June 2018, focused on key material topics including:

- Energy Stewardship: access and affordability, security and reliability, and customer satisfaction,
- Environmental Stewardship: climate change and energy use, and environmental compliance,
- Safety: employee health and safety, public safety, and emergency preparedness, and
- Community and Indigenous Relations.

The 2017 Sustainability Report is available on ATCO's website, at www.ATCO.com

CLIMATE CHANGE AND THE ENVIRONMENT

Tax on Carbon Emissions

The Government of Alberta is phasing in a carbon tax across all sectors. An economy-wide carbon tax of \$20 per tonne in 2017 was increased to \$30 per tonne carbon tax in 2018, and is scheduled to rise to \$40 per tonne in 2021 and \$50 per tonne in 2022 based on alignment with the Government of Canada carbon tax.

Methane Emissions

Further to the previously announced Government of Canada commitment to reduce methane emissions from the oil and gas sector by 40 to 45 percent from 2012 levels by 2025, the Government of Canada published methane regulations in April 2018 with some requirements starting in January 2020. The acceptance of provincial equivalency agreements is yet to be confirmed and CU Inc. continues to monitor these developments.

These methane regulations could affect a portion of the Company's fugitive or venting emissions from Canadian natural gas pipeline-related operations. CU Inc. has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions, which typically represents less than four per cent of CU Inc. greenhouse gas emissions. In addition, the Company's exposure is limited for the Alberta Utilities because the requirements to upgrade equipment to further reduce methane emissions are expected to be included in rate base on a go-forward basis.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the second quarter 2018 and 2017 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Operating costs	318	270	48	630	601	29
Depreciation and amortization	141	118	23	263	237	26
Net finance costs	87	83	4	172	167	5
Income taxes	(4)	31	(35)	59	97	(38)

OPERATING COSTS

In the second quarter and first half of 2018, operating costs, which are total costs and expenses less depreciation and amortization, were \$48 million and \$29 million higher than the same periods in 2017, mainly due to higher salaries and wages resulting from severance payments, and planned maintenance expenses.

DEPRECIATION AND AMORTIZATION

In the second quarter and first half of 2018, depreciation and amortization were \$23 million and \$26 million higher compared to the same periods in 2017. This increase is mainly due to the ongoing capital investment program in our Regulated Utilities as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.

NET FINANCE COSTS

In the second quarter and first half of 2018, net finance costs were comparable to the same periods in 2017.

INCOME TAXES

Income taxes decreased by \$35 million in the second quarter and \$38 million in the first half of 2018 mainly due to lower earnings before income taxes when compared to the same periods in 2017.

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.

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.

On July 13, 2018, Dominion Bond Rating Service affirmed its 'A (high)' long-term corporate credit rating and stable outlook on CU Inc.

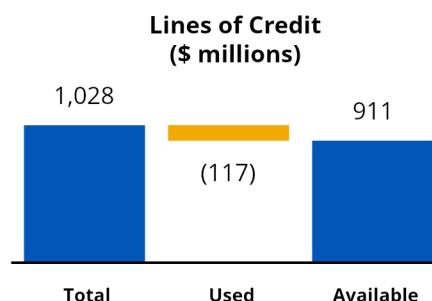
LINES OF CREDIT

At June 30, 2018, CU Inc. and its subsidiaries had the following lines of credit.

<i>(\$ millions)</i>	Total	Used	Available
Long-term committed	900	50	850
Uncommitted	128	67	61
Total	1,028	117	911

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 2019 and 2020, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.



CONSOLIDATED CASH FLOW

At June 30, 2018, the Company's cash balance was \$14 million, a decrease of \$15 million compared to December 31, 2017. The decrease was mainly due to cash funding of capital investment during the quarter, partially offset by earnings for the period.

Funds Generated by Operations

Funds generated by operations were \$204 million in the second quarter and \$651 million in the first half of 2018, \$126 million and \$119 million lower than same periods in 2017. The decrease was mainly due to lower cash earnings as a result of the settlement of regulatory decisions, and the impact of rate re-basing under Alberta's regulated model for natural gas distribution and electric distribution.

Cash Used for Capital Expenditures

Capital expenditures were \$238 million in the second quarter and \$472 million in the first half of 2018, \$3 million and \$31 million higher than the same periods in 2017, mainly due to the replacement of aging infrastructure, system upgrades, and growth projects for new customers.

Capital expenditures for the second quarter of 2018 and 2017 is shown in the table below.

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Electricity Distribution	60	50	10	106	106	–
Electricity Transmission	51	42	9	120	82	38
Natural Gas Distribution	80	100	(20)	135	153	(18)
Natural Gas Transmission	47	43	4	111	100	11
Total ⁽¹⁾	238	235	3	472	441	31

(1) Includes additions to property, plant and equipment, intangibles and \$6 million and \$10 million (2017 - \$5 million and \$9 million) of interest capitalized during construction for the second quarter and first half of 2018.

Base Shelf Prospectuses

On June 11, 2018, 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. No debentures have been issued to date under this base shelf prospectus.

SHARE CAPITAL

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

At July 24, 2018, 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 September 30, 2016 through June 30, 2018.

(\$ millions)	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Revenues	567	696	751	532
Earnings (loss) for the period	76	114	169	(10)
Adjusted earnings				
Electricity	74	80	73	77
Pipelines & Liquids	10	77	85	15
Total adjusted earnings	84	157	158	92

(\$ millions)	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Revenues	578	738	775	588
Earnings for the period	82	152	175	86
Adjusted earnings				
Electricity	66	77	95	81
Pipelines & Liquids	3	65	98	27
Total adjusted earnings	69	142	193	108

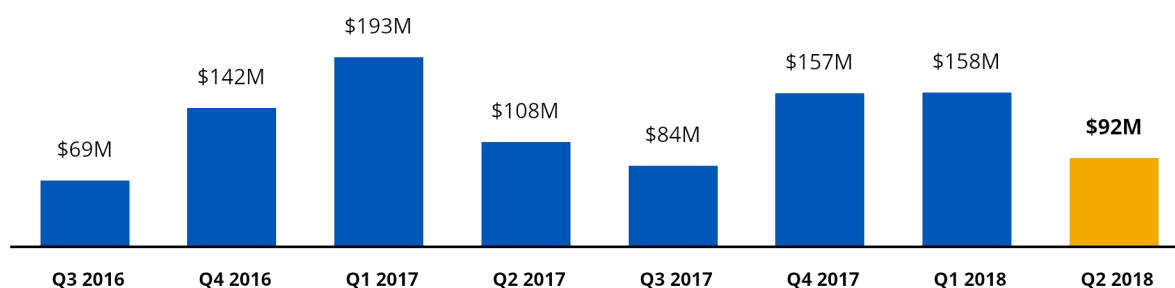
Adjusted Earnings

Our financial results over the previous eight quarters reflect 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 impacted 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 2016, higher earnings were primarily due to continued capital expenditures 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 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. Higher fourth quarter earnings were mainly due to growth in rate base across our Utilities and growth in customers in our natural gas distribution business.

In the first quarter of 2018, higher seasonal demand in natural gas distribution and growth in rate base across the Utilities were partially offset by rate rebasing under Alberta's regulated model in electricity distribution, electricity transmission, and natural gas distribution. Second quarter earnings were lower mainly due to rate rebasing under Alberta's regulated model, partially offset by growth in rate base.



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 year is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 4 of the 2018 unaudited 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 and Australia than IFRS earnings.

<i>(\$ millions)</i>		Three Months Ended June 30			
2018					
2017	Electricity	Pipelines & Liquids	Intersegment Eliminations	Consolidated	
Revenues	281	251	–	532	
	301	287	–	588	
Adjusted earnings	77	15	–	92	
	81	27	–	108	
Restructuring and other costs	(25)	(14)	–	(39)	
	–	–	–	–	
Rate-regulated activities	(53)	(12)	–	(65)	
	(22)	(2)	–	(24)	
Dividends on equity preferred shares of the Company	1	1	–	2	
	1	1	–	2	
Earnings (loss) for the period	–	(10)	–	(10)	
	60	26	–	86	

<i>(\$ millions)</i>		Six Months Ended June 30			
2018					
2017	Electricity	Pipelines & Liquids	Intersegment Eliminations	Consolidated	
Revenues	616	667	–	1,283	
	639	724	–	1,363	
Adjusted earnings	150	100	–	250	
	176	125	–	301	
Restructuring and other costs	(25)	(14)	–	(39)	
	–	–	–	–	
Rate-regulated activities	(66)	9	–	(57)	
	(61)	16	–	(45)	
Dividends on equity preferred shares of the Company	3	2	–	5	
	3	2	–	5	
Earnings for the period	62	97	–	159	
	118	143	–	261	

RESTRUCTURING AND OTHER COSTS

In the second quarter of 2018, restructuring and other costs not in the normal course of business of \$39 million after tax were recorded. These costs mainly relate to staff reductions and associated severance costs, as well as costs related to decisions to discontinue certain projects that no longer represent long-term strategic value to the Company.

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.

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Change	2018	2017	Change
Additional revenues billed in current period						
Future removal and site restoration costs ⁽¹⁾	20	19	1	39	38	1
Impact of colder temperatures ⁽²⁾	-	-	-	12	-	12
Revenues to be billed in future periods						
Deferred income taxes ⁽³⁾	(25)	(25)	-	(58)	(54)	(4)
Impact of warmer temperatures	-	(3)	3	-	(3)	3
Regulatory decisions received	-	7	(7)	-	7	(7)
Settlement of regulatory decisions and other items ⁽⁴⁾	(60)	(22)	(38)	(50)	(33)	(17)
	(65)	(24)	(41)	(57)	(45)	(12)

(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) 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.

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

(4) In the second quarter of 2018, ATCO Electric recorded a decrease in earnings for the period of \$38 million mainly related to the refund of deferral account balances for 2013 and 2014. ATCO Gas also recorded a reduction in earnings for the period of \$23 million related to the refund of previously over collected transmission costs.

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, impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes, 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 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 4 of the 2018 unaudited interim consolidated financial statements.

OTHER FINANCIAL INFORMATION

ACCOUNTING CHANGES

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) have been adopted in the current period. These standards or interpretations are substantially unchanged from those reported in the 2017 MD&A.

- IFRS 9 (2014) Financial Instruments - this standard replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. It incorporates IFRS 9 (2013), with a further classification category for financial assets, and includes a new impairment model for financial instruments. The Company early adopted two out of three components of this standard (Classification and Measurement and Hedge Accounting) on January 1, 2015. This standard was effective on January 1, 2018, at which time the Company adopted the final component, Impairments. This component includes a new expected credit loss model for calculating impairment on financial assets and replaces the current incurred loss impairment model. The new standard will increase bad debt provisioning for all trade receivables, however the impact is not material due to current provisioning procedures, the low credit risk with current counterparties, and collateral and parental guarantee arrangements in place for the Company's significant receivables. Additional information regarding the impact of the adoption of IFRS 9 is presented in Note 3 of the unaudited interim consolidated financial statements.
- IFRS 15 Revenue from Contracts with Customers - this standard replaces IAS 18 Revenue and related interpretations and is effective on or after January 1, 2018. It provides a framework to determine when to recognize revenue and at what amount. It applies to new contracts created on or after the effective date and to existing contracts not completed as of the effective date. The Company has applied the full retrospective transition method. The Company is party to numerous contracts with customers that will be impacted by the new standard. Under IFRS 15, the timing of revenue recognition for certain contracts is impacted by the new revenue recognition model. Additional information regarding the impact of the adoption of IFRS 15 is presented in Note 3 of the unaudited interim consolidated financial statements.

Certain new or amended standards or interpretations issued by the IASB or the IFRIC do not need to be adopted in the current period. The Company anticipates that this standard issued, but not yet effective, may have a material effect on the consolidated financial statements as described below.

- IFRS 16 Leases - this standard replaces IAS 17 Leases and related interpretations and is effective on or after January 1, 2019. It requires a lessee to recognize assets and liabilities on the balance sheet for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. Lessor accounting under the new standard retains similar classifications to the previous guidance, however the new standard may change the accounting treatment of certain components of lessor contracts and sub-leasing arrangements. The Company is currently in the process of gathering detailed information on its leases, and analyzing the related contract terms and conditions under this standard in accordance with its adoption project plan. Current evaluations of adoption impacts are ongoing and it is expected that the adoption may result in a material increase in assets and liabilities within the consolidated financial statements. The Company is also assessing the practical expedients available in the standard which could be utilized on transition, including allowing entities to not have to reassess whether an arrangement contains a lease under the provisions of IFRS 16. As the review is still in process, at this time, it is not practicable to quantify the precise impact of adopting the standard. Once further phases of the adoption plan are completed, a quantitative estimate of the impact on the consolidated financial statements will be made.

There are no other new or amended standards issued, but not yet effective, that the Company anticipates will have a material effect on the consolidated financial statements once adopted.

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 April 1, 2018, and ended on June 30, 2018, 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 and Chief Executive Officer, and the other members of the Executive Committee.

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.

Km means kilometre.

PBR means Performance Based Regulation.

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