CU INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2016

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 past year.

This MD&A was prepared as of March 2, 2017, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2016. Additional information, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

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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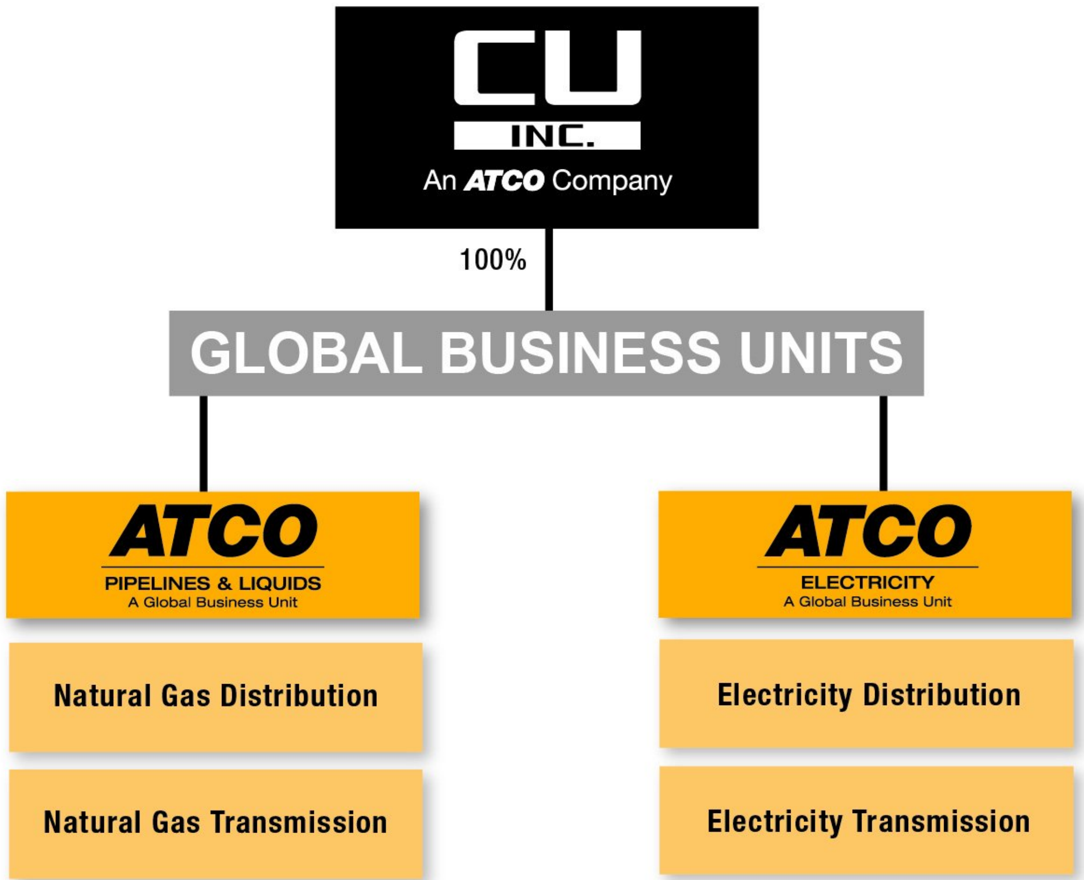
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with approximately 4,100 employees and assets of $15 billion comprised of rate-regulated utility operations in natural gas and electricity distribution and transmission. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

THE UTILITIES

The Utilities' activities are conducted through regulated businesses in two Global Business Units within western and northern Canada: Electricity, which includes ATCO Electric Distribution and ATCO Electric Transmission, and Pipelines & Liquids, which includes ATCO Gas and ATCO Pipelines.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



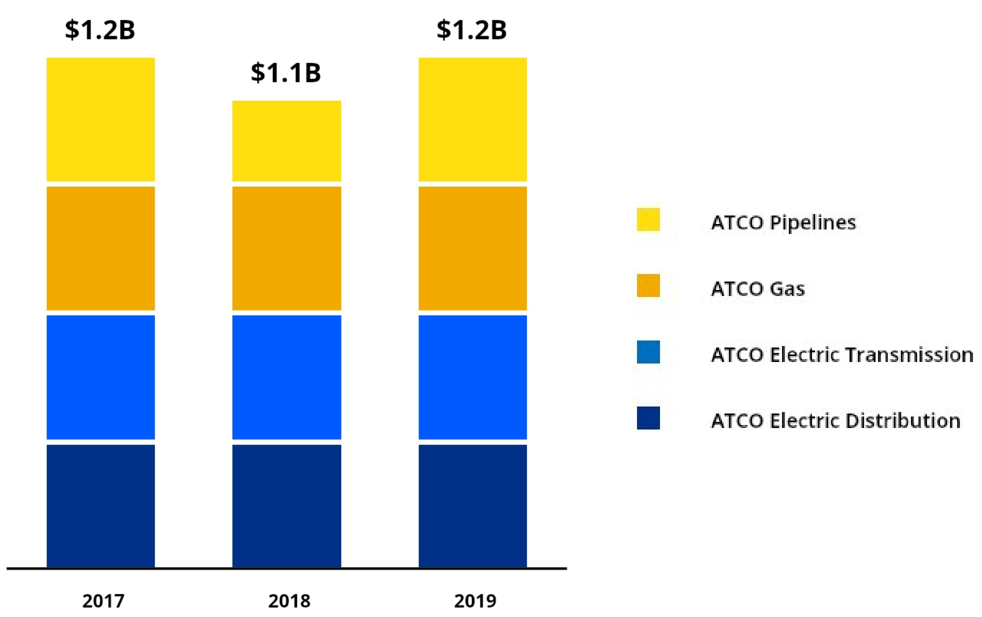
The audited consolidated financial statements include the accounts of CU Inc. and all of its subsidiaries. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative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

STRATEGIC PRIORITIES FOR 2017 AND BEYOND

GROWTH

In the 2017 to 2019 period, CU Inc. expects to invest approximately $3.5 billion in regulated utility capital growth projects. This capital investment is expected to contribute significant earnings and cash flow. ATCO Electric Distribution and ATCO Electric Transmission are planning to invest $1.8 billion, and ATCO Gas and ATCO Pipelines are planning to invest $1.7 billion from 2017 to 2019.

CU Inc. Future Capital Expenditures



FINANCIAL STRENGTH

Maintaining our strong financial position enables the Company to sustain its operations and to grow through economic cycles. This is particularly important with today's weaker global economic conditions. Our "A" range credit ratings are fundamental to our Company's current and future success. It ensures the Company has the financial capacity to fund our existing and future capital investments through access to capital markets at attractive rates.

INNOVATION

We will continue to explore new technologies and ways of delivering energy to our customers. The Company's research and development focus will underpin its success in the years ahead through continuous improvement of existing products and services as well as exploring and testing new products and methods of delivery to meet our customers' future needs.

OPERATIONAL EXCELLENCE

CU Inc. approaches operational excellence by achieving high service, reliability, and product quality for our customers and the communities we serve. The Company is uncompromising about maintaining a safe work environment for employees and contractors, promoting public safety and striving to minimize environmental impacts. We will focus on continually improving our safety programs and achieving lost-time injury rates that compare favourably with Alberta Occupational Health and Safety rates.

In late 2015, the Company initiated an organizational transformation to streamline and gain operational efficiencies. These transformation initiatives have created tangible benefits and will provide a competitive advantage for the organization and cost effective solutions for our customers. CU Inc. will continue to look for opportunities for improved productivity.

COMMUNITY INVOLVEMENT

CU Inc. will continue to build on and sustain positive Indigenous relationships through ongoing communication and mutual sharing of interests and ways of working together to contribute to economic and social development in their communities.

We encourage partnerships throughout the organization to benefit non-profit organizations through volunteer efforts, providing products and services in-kind, and general advice where required. CU Inc. will continue to administer the employee-led ATCO EPIC campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they live and work.

UTILITIES PERFORMANCE

REVENUES

Revenues in the Utilities of $738 million in the fourth quarter and $2,573 million in the full year of 2016 were $79 million and $202 million higher than same periods in 2015. Increased revenues are primarily attributable to rate base growth.

ADJUSTED EARNINGS

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Electricity						
ATCO Electric Distribution	**28**	22	6	**129**	93	36
ATCO Electric Transmission	**49**	22	27	**188**	155	33
Total Electricity	**77**	44	33	**317**	248	69
Pipelines & Liquids						
ATCO Gas	**48**	51	(3)	**123**	106	17
ATCO Pipelines	**17**	11	6	**61**	41	20
Total Pipelines & Liquids	**65**	62	3	**184**	147	37
Total Utilities Adjusted Earnings(1)	**142**	106	36	**501**	395	106

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

In the fourth quarter and full year of 2016, adjusted earnings of $142 million and $501 million were $36 million and $106 million higher than the same periods of 2015. Higher earnings are primarily attributable to rate base growth.

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

ELECTRICITY

Electricity's activities are conducted through two regulated businesses, 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. The service territory includes the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River.

Electricity Distribution

ATCO Electric Distribution's adjusted earnings of $28 million in the fourth quarter and $129 million in the full year of 2016 were $6 million and $36 million higher when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base, business-wide cost reduction initiatives and the adverse earnings impact associated with the Generic Cost of Capital (GCOC) and Capital Tracker regulatory decisions received in 2015.

Electricity Transmission

ATCO Electric Transmission's adjusted earnings of $49 million in the fourth quarter and $188 million in the full year of 2016 were $27 million and $33 million higher when compared to the same periods of 2015. Higher earnings resulted primarily from growth in rate base, business-wide cost reduction initiatives, and the adverse impact associated with the GCOC regulatory decision received in 2015, partially offset by the impact of the ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA) decision received in August 2016.

PIPELINES & LIQUIDS

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.

ATCO Gas' adjusted earnings of $48 million in the fourth quarter of 2016 were $3 million lower when compared to the same period in 2015, primarily due to higher operations and maintenance costs in the quarter. Earnings of $123 million in the full year of 2016 were $17 million higher when compared to the same period of 2015. Higher earnings resulted primarily from growth in rate base and customers, business-wide cost reduction initiatives and the adverse earnings impact associated with the GCOC and Capital Tracker regulatory decisions received in the first quarter of 2015.

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.

ATCO Pipelines' adjusted earnings of $17 million in the fourth quarter and $61 million in the full year of 2016 were $6 million and $20 million higher when compared to the same periods of 2015. Higher earnings were primarily due to growth in rate base and the adverse earnings impact associated with the GCOC decision received in the first quarter of 2015.

Major Project Updates

Urban Pipelines Replacement Program

Construction continued on ATCO Pipelines' AUC-approved UPR program in 2016. Construction will continue until 2020 and the total cost of the UPR program is estimated to be $850 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. In 2016, ATCO Gas and ATCO Pipelines invested $185 million in the UPR program. The program will replace and relocate aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth.

Mains Replacement Programs

ATCO Gas has 8,000 kms of plastic pipe and 9,000 kms of steel pipe that have been identified for replacement. The Plastic Mains Replacement program is a 20-year program aimed at replacing polyvinyl chloride (PVC) and early generation polyethylene (PE) pipe. The Steel Mains Replacement program replaces steel pipe that is generally more than 60 years old. In 2016, ATCO Gas replaced 242 kms of plastic pipe, and 41 kms of steel pipe.

REGULATORY DEVELOPMENTS

REGULATED BUSINESS MODELS

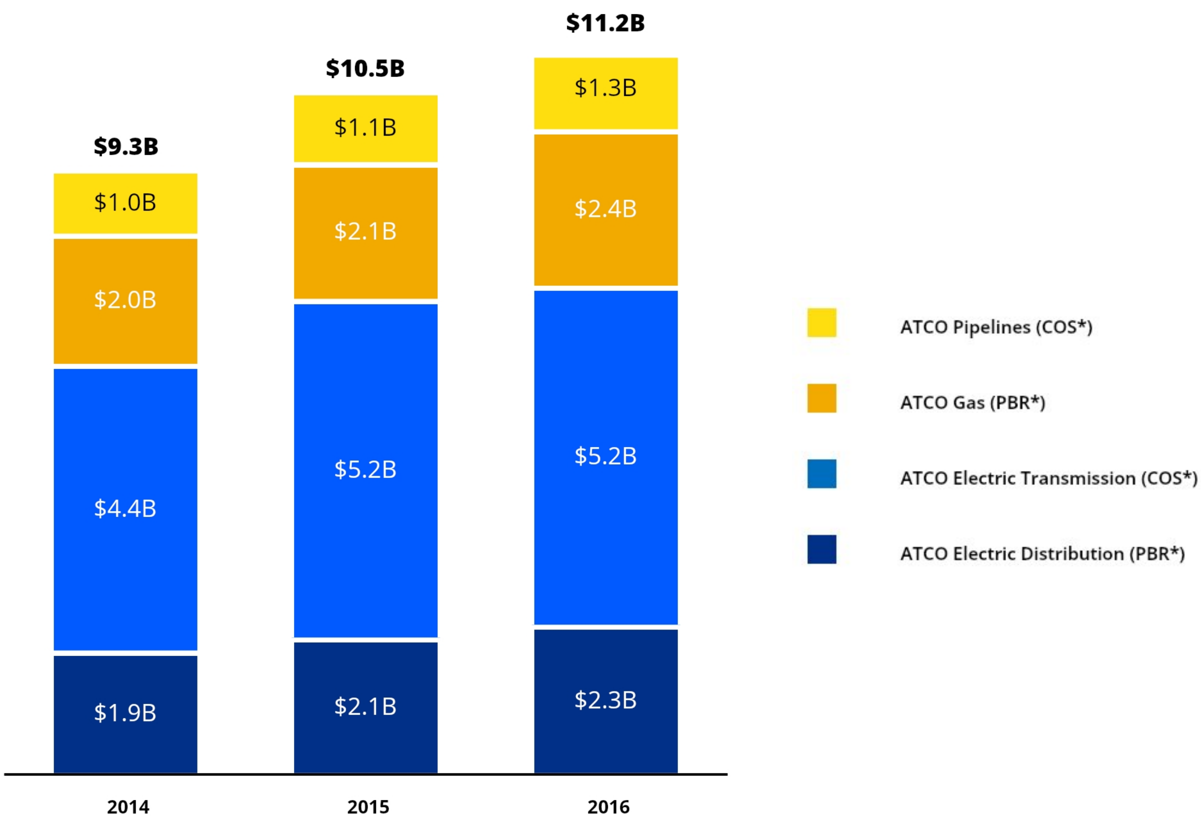
The business operations of ATCO Electric Distribution, ATCO Electric Transmission, ATCO Gas and ATCO Pipelines are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

The transmission operations of ATCO Pipelines and ATCO Electric Transmission operate under a cost of service regulation. Under this model, the regulator establishes the revenues needed 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 the equity ratio of the Mid-Year Rate Base and the Rate of Return on Common Equity.

The distribution operations of ATCO Gas and ATCO Electric Distribution operate under performance based regulation (PBR). Under PBR, revenue is determined by a formula that adjusts customer rates for inflation and expected 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 reviews 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 mainly on the formula that adjusts rates for inflation and productivity improvements.

Further discussion of these regulations is discussed in the Company's Annual Information Form in the Government Regulation section.

Utilities Mid-Year Rate Base



** COS means Cost of Service Regulation; PBR means Performance Based Regulation*

Generic Cost of Capital (GCOC)

In October 2016, the Company received the AUC 2016 GCOC decision. The decision established the return on equity (ROE) and deemed common equity ratios for the Utilities for 2016 and 2017. The approved ROE and common equity ratios for 2017 will remain in place on an interim basis for 2018 and for subsequent years until changed by the AUC. For ATCO Electric Distribution and ATCO Gas, the 2016 GCOC decision only applies to incremental capital funding and does not apply to the base PBR formula. Based on the changes to the approved ROE and common equity ratios, the net impact is expected to be an improvement to 2017 adjusted earnings for CU Inc., mainly due to the increase in the approved ROE and common equity ratio for ATCO Electric Transmission.

The following table compares the ROE and deemed common equity ratios resulting from the 2013 and 2016 GCOC decisions. The information reflects the most recent amending or varying orders issued after the original decision date.

	Year	AUC Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
ATCO Electric Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**–**
	2016	**2016 GCOC (3)**	**8.30**	**37.0**	**2,315 (6)**
	2015	2013 GCOC (4)	8.30	38.0	2,130 (7)
	2014	2013 GCOC (4)	8.30	38.0	1,949
ATCO Electric Transmission	**2017**	**2016 GCOC (3)**	**8.50 (5)**	**37.0**	**–**
	2016	**2016 GCOC (3)**	**8.30 (5)**	**37.0**	**5,218 (8)**
	2015	2013 GCOC (4)	8.30	36.0	5,198 (9)
	2014	2013 GCOC (4)	8.30	36.0	4,413
ATCO Gas	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**–**
	2016	**2016 GCOC (3)**	**8.30**	**37.0**	**2,352 (10)**
	2015	2013 GCOC (4)	8.30	38.0	2,145 (11)
	2014	2013 GCOC (4)	8.30	38.0	1,988
ATCO Pipelines	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**–**
	2016	**2016 GCOC (3)**	**8.30**	**37.0**	**1,263 (12)**
	2015	2013 GCOC (4)	8.30	37.0	1,144
	2014	2013 GCOC (4)	8.30	37.0	979

(1) Rate of return on common equity is the rate of return on the portion of rate base considered to be financed by common equity.

(2) The common equity ratio is the portion of rate base considered to be financed by common equity.

(3) The AUC released its GCOC decision for the periods 2016 to 2017 on October 7, 2016.

(4) The ROE and common equity ratio were based on the last AUC GCOC decision of March 23, 2015.

(5) The ROE and common equity ratio for ATCO Electric Transmission were approved on an interim basis on October 7, 2016, and were approved on a final basis on December 16, 2016.

(6) The mid-year rate base forecast for 2016 is based of the 2016-2017 Capital Tracker Compliance application filed on April 14, 2016.

(7) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 2, 2016.

(8) The mid-year rate base forecast for 2016 is based of the 2015-2017 GTA Compliance application filed on December 14, 2016.

(9) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 2, 2016.

(10) The mid-year rate base forecast for 2016 is based on the 2016 forecast included in the 2016-2017 Capital Tracker Compliance Application filed on May 12, 2016.

(11) The mid-year rate base for 2015 is based on the Rule 005 Actuals Package filed on May 16, 2016.

(12) The mid-year rate base for 2016 is from the 2017/2018 General Rate Application (GRA) filed September 22, 2016.

NEXT GENERATION OF PERFORMANCE BASED REGULATION (PBR 2)

On December 16, 2016, the AUC released its decision on the second generation of 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 will be filed by March 31, 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.

The following table compares the key aspects of the PBR First Generation with the PBR Second Generation based on the AUC's December 16, 2016 decision.

	PBR First Generation	**PBR Second Generation**
Timeframe	2013 to 2017	2018 to 2022
Inflation Adjuster (I Factor)	Inflation indexes (AWE and CPI) adjusted annually	Unchanged
Productivity Adjuster (X Factor)	1.16%	0.30%
O&M	Based on approved 2012 forecast O&M levels; inflated by I-X thereafter over the PBR term	Based on the lowest annual actual O&M level during 2013-2016, adjusted for anomalies, inflation and growth to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Expenditures	• Recovered through going-in rates inflated by I-X • Significant capital expenditures not fully recovered by the I-X formula and meeting certain criteria recovered through a K Factor	• Recovered through going-in rates inflated by I-X and a K Bar that is based on inflation adjusted average historical capital expenditures for the period 2013-2016 • Significant capital expenditures 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	8.75%	• 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 2018 and 2019 based on certain criteria	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	Unchanged
ROE Used for Reopener Calculation	2013 to 2016: 8.3% 2017: 8.5%	2018 approved ROE (once known) and approved rates thereafter

ATCO Electric Transmission 2015 to 2017 General Tariff Application (GTA)

In March 2015, ATCO Electric Transmission filed a general tariff application for its operations for 2015, 2016 and 2017. The application requested, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with growth in rate base in Alberta. In August 2016, the AUC issued a decision on the GTA with final rates that were lower than the approved interim rates from 2015 mainly due to lower approved O&M and G&A costs. The impact of this decision was a reduction to 2016 adjusted earnings of $19 million of which $12 million relates to 2016 and $7 million relates to 2015.

PBR Capital Tracker Applications

The Capital Tracker is a mechanism included in the 2013-2017 PBR regulatory model to allow the Company to recover capital investments that meet certain criteria and are not recoverable through the base PBR formula. The decisions for the 2014 Capital Tracker true-up and the 2016-2017 Capital Tracker applications were received by ATCO Electric Distribution in March 2016 and ATCO Gas in April 2016. These decisions included approval of incremental funding for the majority of the Company's applied-for forecast Capital Tracker programs for 2016 and 2017.

SUSTAINABILITY, CLIMATE CHANGE AND THE ENVIRONMENT

CU Inc. believes that reducing its environmental impact is integral to the pursuit of operational excellence and long-term sustainable growth. CU Inc.'s success depends on its ability to operate in a responsible and sustainable manner, today and in the future.

SUSTAINABILITY REPORTING

Canadian Utilities, the controlling share owner of CU Inc., has been publishing external sustainability reports since 2008. Reporting is based upon the internationally recognized Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, covering a broad spectrum of metrics (i.e. Environment, Health & Safety, Employees and Communities).

Priority has been placed on reporting core non-financial indicators to provide meaningful, efficient and transparent disclosures in priority areas for "customers" of our sustainability reporting (i.e. investors, business partners, customers, communities, Indigenous groups, employees, and government).

In 2016, a more detailed key topic assessment was completed to further engage groups impacted by our operations, to take steps toward alignment with evolving international guidance (GRI Sustainability Reporting Standards), and to inform the redesign of our sustainability disclosures and communication.

The 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

The following is an overview of environmental regulatory developments, predominantly focused on Alberta and Canada as the majority of our assets are located within these jurisdictions.

Alberta's Provincial Climate Leadership Plan

In November 2015, the Government of Alberta announced its Climate Leadership Plan, a proposed framework which includes:

1. phasing out of coal-fired generation by 2030,
2. phasing in of renewable energy,
3. an economy-wide tax on carbon emissions starting in 2017, and
4. the reduction of methane emissions.

CU Inc. shares the province's vision to reduce emissions and improve environmental performance. CU Inc. has been working closely with the Government to increase renewable power generation in the market, while maintaining the reliability of the electrical grid, protecting jobs and mitigating costs for consumers.

1. ***Phasing Out of Coal-fired Generation by 2030***

   CU Inc. is not impacted by this component of the framework.

2. *Phasing in of Renewable Energy*

As part of its Climate Leadership Plan, the Government of Alberta 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 November 3, 2016, the Government of Alberta appointed the AESO to administer a competitive process to procure up to 5,000 MW of renewable energy by 2030. The AESO plans to gather feedback from industry on draft commercial terms before the first auction anticipated in 2017 for delivery in 2019. CU Inc. continues to examine renewable opportunities that support its strategic objectives as active participants in Alberta's electricity transformation.

3. *Tax on Carbon Emissions*

The Government of Alberta will phase in the carbon tax across all sectors in two steps. An economy-wide carbon tax of $20 per tonne will be implemented in 2017, followed by a $30 per tonne carbon tax in 2018.

Primary impacts to CU Inc. from the Alberta economy-wide tax on carbon or carbon levy implemented in 2017 is to our natural gas distribution business. CU Inc. will calculate consumption from the meter and apply the levy to the tariff bill file for retailers to bill customers. The retailers pay CU Inc. and CU Inc. will be responsible for monthly remittance to the Government of Alberta. This is the same process CU Inc. carries out on behalf of the Government for collecting and remitting GST.

4. *Reduction of Methane Emissions*

The Government of Alberta's plan is to reduce methane emissions by 45 per cent from oil and gas operations by 2025 by applying new emissions design standards to new Alberta facilities, and developing a five-year voluntary Joint Initiative on Methane Reductions and Verification.

Future provincial regulations or reduction targets for methane emissions predominantly affect the Company's fugitive or venting emissions from natural gas pipeline-related operations. Fugitive and venting emissions typically account for less than four per cent of CU Inc.'s direct greenhouse gas emissions, and CU Inc. has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions.

The Company's exposure is limited because requirements to upgrade equipment in order to further reduce methane emissions are expected to be included in rate base on a go-forward basis.

Government of Canada Proposals on the Environment

Phasing out Coal-fired Generation

In November 2016, the Government of Canada announced electricity regulations to phase-out coal-fired electricity by December 31, 2029. Because Alberta's Climate Leadership Plan already includes a proposal to phase out coal-fired electricity by December 31, 2030, this Government of Canada plan is unlikely to materially impact CU Inc.

Tax on Carbon Emissions

In October 2016, the Government of Canada passed a motion in the House of Commons to ratify the Paris Climate Change Accord. At the same time, the Government announced a requirement for some form of carbon pricing in all jurisdictions in Canada by 2018; proposing a national benchmark requirement of $10 per tonne of CO_2 by 2018, rising by $10 each year to $50 per tonne in 2022. The Government has stated that it will work with the provinces and territories to ensure that all monies raised by the carbon tax will stay in the direct control of the respective provinces and territories.

Reduction of Methane Emissions

The Government of Canada has announced a target to reduce methane to 40 per cent below 2012 levels by 2025. The Company's exposure is limited because requirements to upgrade equipment in order 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 quarters and years ended December 31, 2016 and 2015 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)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Operating costs	**330**	378	(48)	**1,153**	1,240	(87)
Depreciation and amortization	**116**	100	16	**460**	389	71
Net finance costs	**83**	66	17	**327**	231	96
Income taxes	**57**	34	23	**172**	199	(27)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, decreased by $48 million in the fourth quarter and $87 million in the full year of 2016 when compared to the same periods of 2015. Lower operating costs are being realized in 2016 as a result of the Company's restructuring exercise in 2015, leading to ongoing business-wide cost reduction initiatives.

DEPRECIATION AND AMORTIZATION

In the fourth quarter and full year of 2016, depreciation and amortization expense increased by $16 million and $71 million when compared to the same periods of 2015. The increased expense was mainly due to the Utilities' ongoing capital expenditure program.

NET FINANCE COSTS

Net finance costs increased in the fourth quarter and full year of 2016 when compared to the same periods in 2015. These increases are primarily due to interest costs which were previously capitalized now being recorded as interest expense, mainly resulting from the completion of the $1.8 billion Eastern Alberta Transmission Line (EATL) project during the fourth quarter of 2015. Higher interest expense is also the result of incremental debt issued to fund the Utilities' ongoing capital expenditure program.

INCOME TAXES

Higher earnings before taxes, driven mainly by continued capital investment and growth in rate base within the Utilities, was the primary reason for higher income taxes in the fourth quarter of 2016. Income taxes in the full year of 2015 were higher mainly as a result of an increase in Alberta's corporate income tax rate from 10 per cent to 12 per cent, effective July 1, 2015.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial position is supported by Utility operations. Its 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.

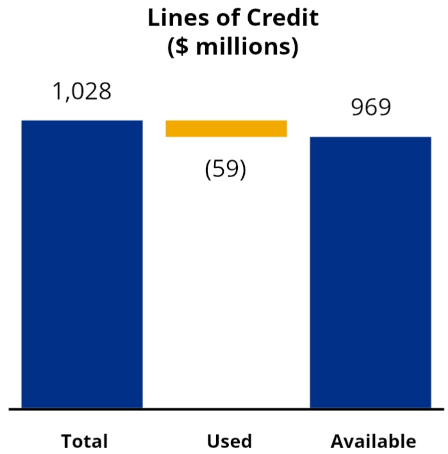
In July 2016, Standard and Poor's Rating Services (S&P) affirmed its rating on the Company as "A" with a negative outlook and DBRS Limited (DBRS) affirmed its rating on the Company as "A" (high) with a stable trend.

LINES OF CREDIT

At December 31, 2016, the Company and its subsidiaries had the following lines of credit.

($ millions)	**Total**	**Used**	**Available**
Long-term committed	**900**	–	900
Uncommitted	**128**	59	69
Total	**1,028**	59	969

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.



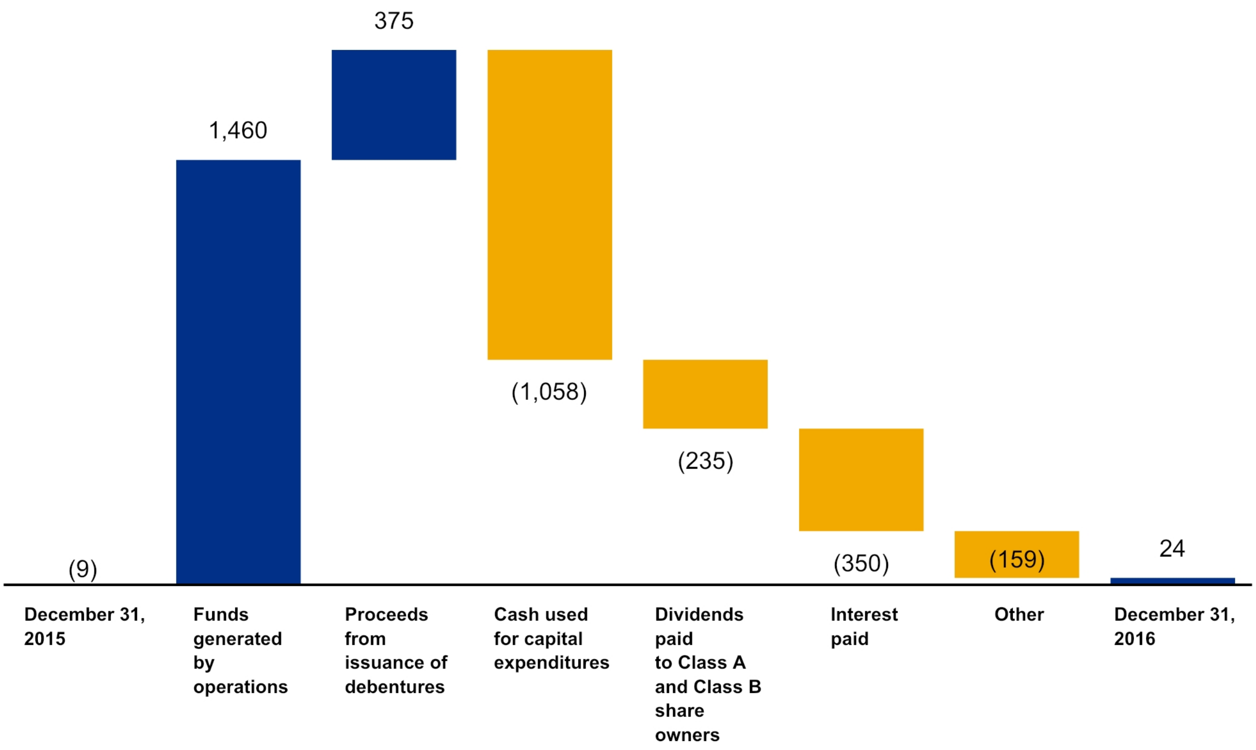
CONSOLIDATED CASH FLOW

At December 31, 2016, the Company's cash position was $24 million, an increase of $33 million compared to 2015. Major movements are outlined in the following table.

($ millions)	Three Months Ended December 31 2016	2015	Change	Year Ended December 31 2016	2015	Change
Funds generated by operations [1]	**437**	290	147	**1,460**	1,245	215
Proceeds from issuance of debentures	**375**	250	125	**375**	650	(275)
Cash used for capital expenditures	**(333)**	(468)	135	**(1,058)**	(1,414)	356
Dividends paid to Class A and Class B share owners	**(235)**	(255)	20	**(235)**	(255)	20
Interest paid	**(94)**	(88)	(6)	**(350)**	(322)	(28)
Other	**(64)**	113	(177)	**(159)**	65	(224)
Increase (decrease) in cash position	**86**	(158)	244	**33**	(31)	64

(1) Additional information regarding these measures is provided in the Non-GAAP and Additional GAAP Measures section.

Changes in Consolidated Cash Flow in 2016
($ millions)



Funds generated by operations

Funds generated by operations were $437 million in the fourth quarter and $1,460 million in the full year of 2016, compared to $290 million and $1,245 million, in the same periods in 2015. The increases were mainly as a result of higher earnings for the year, driven by capital investment and rate base growth in the Utilities.

Cash used for capital expenditures

Cash used for capital expenditures was $333 million in the fourth quarter and $1,058 million in the full year of 2016, compared to $468 million and $1,414 million in the same periods of 2015. Decreased investment was due to previously disclosed and planned lower capital spending in Electric Transmission year-over-year, mainly resulting from the completion of the EATL project during the fourth quarter of 2015.

Capital expenditures for the quarter and year ended December 31 2016, and 2015 are shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
ATCO Electric Distribution	**83**	100	(17)	**267**	355	(88)
ATCO Electric Transmission	**43**	141	(98)	**203**	471	(268)
ATCO Gas	**92**	100	(8)	**336**	331	5
ATCO Pipelines	**115**	127	(12)	**252**	257	(5)
Total (1)	**333**	468	(135)	**1,058**	1,414	(356)

(1) Includes additions to property, plant and equipment, intangibles and $5 million and $18 million (2015 - $19 million and $95 million) of interest capitalized during construction for the quarter and year ended December 31, 2016.

Debt issuances and repayments

On November 19, 2016, the Company issued $375 million of 3.763 per cent 30-year debentures. Proceeds from this issuance were used to fund significant capital expenditures, to repay existing indebtedness, and for other general corporate purposes of the Utilities.

Base Shelf Prospectus

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 March 1, 2017, aggregate issuances of debentures were $375 million.

Preferred Shares

Effective June 1, 2016, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset from 3.80 per cent to 2.24 per cent for the next five-year period.

SHARE CAPITAL

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

At March 1, 2017, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

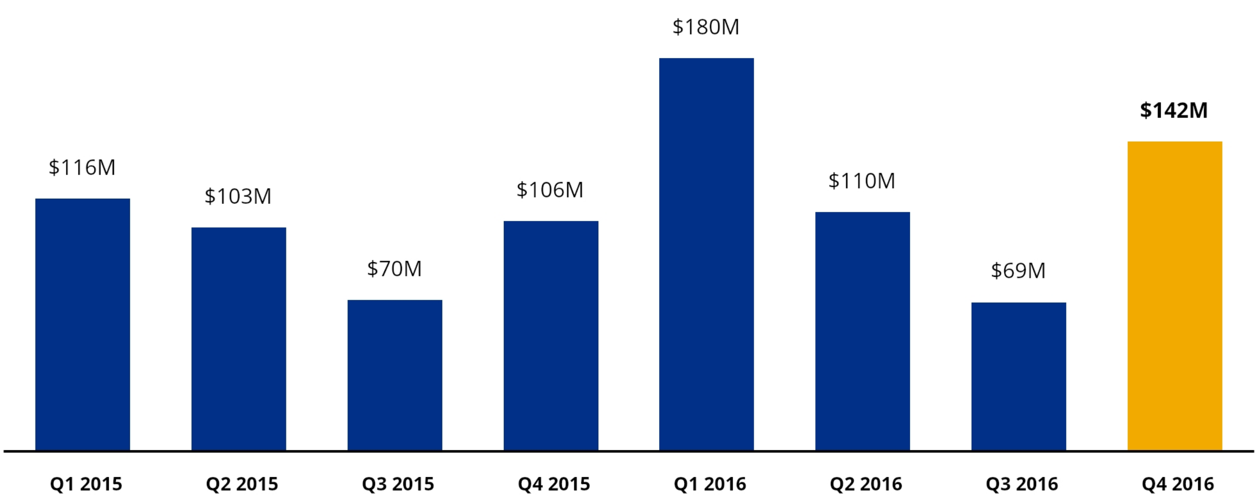
The following table shows financial information for the eight quarters ended March 31, 2015 through December 31, 2016.

($ millions)	**Q1 2016**	**Q2 2016**	**Q3 2016**	**Q4 2016**
Revenues	686	571	578	**738**
Earnings for the period	149	78	82	**152**
Adjusted earnings				
Electricity	88	86	66	**77**
Pipelines & Liquids	92	24	3	**65**
Total adjusted earnings	180	110	69	**142**
($ millions)	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**
Revenues	662	546	504	659
Earnings for the period	152	24	55	81
Adjusted earnings				
Electricity	45	87	72	44
Pipelines & Liquids	71	16	(2)	62
Total adjusted earnings	116	103	70	106

The general increase in adjusted earnings over the prior eight quarters reflects the large capital investment made by the Utilities. These investments earn a return under a regulated business model and drive growth in adjusted earnings. Utilities' 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 first quarter due to the financial impact of the GCOC and Capital Tracker decisions. Earnings were lower in the third quarter due to higher operations and maintenance costs, and lower seasonal demand in ATCO Gas. 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 ATCO Electric Transmission's GTA.

In 2016, higher earnings in the first half and fourth quarter were mainly due to continued capital investment and growth in rate base, and business-wide cost reduction initiatives. Earnings were lower in the third quarter due to the financial impact of ATCO Electric Transmission's GTA decision.



BUSINESS RISKS AND RISK MANAGEMENT

The Board of Directors (Board) 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 share owners. 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 Committee, which reviews significant risks associated with future performance and growth. The committee also reviews 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.

Business Risk: Capital Expenditure	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
The Company is subject to the normal risks associated with major capital projects, including delays and cost increases.	The Company attempts to reduce the risks of project delays and cost increases by careful planning, diligent procurement practices and entering into long-term 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: Credit Risk	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. Derivative and 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.	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 derivative credit risk by dealing with large, credit-worthy counterparties with established credit-approval policies. Substantially all of the loans and receivables are from the Company's operations in Alberta. The Company does not have a concentration of credit risk with any counter parties. Accounts receivable 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 material losses from retailers beyond the retailer security mandated by provincial regulations.

Business Risk: Cybersecurity	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
The Company’s reliance on technology, which supports its information and industrial control systems, is subject to potential cyberattacks including unauthorized access of confidential information and outage of critical infrastructure.	CU Inc. has an enterprise wide cybersecurity program that covers all technology assets and is aligned to industry best practices. The cybersecurity program includes the utilization of layered access controls, continuous monitoring, network threat detection, and coordinated incident response through a centralized information technology response centre. The Company’s cybersecurity management is consolidated under a common organizational structure to increase effectiveness and compliance across the entire enterprise.

Business Risk: Financing Risk	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
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.	To address this risk, the Company manages its capital structure to maintain strong 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 flow from operations and supported by appropriate levels of cash and available committed credit facilities.

Business Risk: Foreign Currency Exchange Rate Risk	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
Foreign currency exchange rate risk arises from financial instruments denominated in a currency other than the functional currency.	The Company enters into foreign currency forward contracts to manage its exposure to exchange rate risk arising on certain agreements denominated in U.S. dollars.

Business Risk: Pipeline Integrity	
Businesses Impacted: • ATCO Gas • ATCO Pipelines	
Description and Context	***Risk Management Approach***
ATCO Gas and ATCO Pipelines have significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe.	Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required to address safety, reliability, and future growth. These programs include ATCO Gas' and ATCO Pipelines' UPR programs and ATCO Gas' mains replacement programs. The Company also carries property and liability insurance.

Business Risk: Regulated Operations	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
The Utilities are subject to the normal risks faced by regulated companies. These risks include 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. These risks also include the regulator's potential disallowance of costs incurred.	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. The Utilities continuously monitor various regulatory decisions and cases to assess how they might impact the Company's regulatory applications for the recovery of prudent costs. The Utilities are proactive in demonstrating prudence.

Business Risk: Liquidity Risk	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
Liquidity risk is the risk that the Company will not be able to meet its financial obligations.	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. The Company has a policy not to invest any of its cash balances in asset-backed securities. At December 31, 2016, the Company's cash position was $24 million and there were available committed and uncommitted lines of credit of approximately $969 million which can be utilized for general corporate purposes.

Liquidity Risk (discussed in the Business Risks and Risk Management table above) includes contractual financial obligations which the Company will meet with cash flow from operations, existing cash balances and external financing, if necessary. These contractual obligations for the next five years and thereafter are shown below.

($ millions)	2017	2018	2019	2020	2021	2022 and thereafter
Financial Liabilities						
Bank indebtedness	1	–	–	–	–	–
Accounts payable and accrued liabilities	427	–	–	–	–	–
Accounts payable to parent and affiliate companies	10	–	–	–	–	–
Long-term debt:						
Principal	150	3	480	100	160	6,435
Interest expense	361	353	336	321	303	6,331
	949	356	816	421	463	12,766
Commitments						
Operating leases	19	18	5	4	4	10
Purchase obligations:						
Operating and maintenance agreements	247	239	211	73	67	170
Capital expenditures	69	–	–	–	–	–
	335	257	216	77	71	180
Total	1,284	613	1,032	498	534	12,946

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 3 of the 2016 Annual Financial Statements.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE YEAR

Adjusted earnings are earnings for the year 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 December 31
2016 **2015**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**366**	**372**	**–**	**–**	**738**
	342	317	–	–	659
Adjusted earnings	**77**	**65**	**–**	**–**	**142**
	44	62	–	–	106
Restructuring costs	**(4)**	**(5)**	**–**	**–**	**(9)**
	(21)	(31)	–	–	(52)
Rate-regulated activities	**2**	**15**	**–**	**–**	**17**
	34	(10)	–	–	24
Dividends on equity preferred shares of the Company	**1**	**1**	**–**	**–**	**2**
	2	1	–	–	3
Earnings for the period	**76**	**76**	**–**	**–**	**152**
	59	22	–	–	81

($ millions)					Year Ended December 31
2016 **2015**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**1,370**	**1,203**	**–**	**–**	**2,573**
	1,245	1,127	–	(1)	2,371
Adjusted earnings	**317**	**184**	**–**	**–**	**501**
	248	147	–	–	395
Restructuring costs	**(4)**	**(5)**	**–**	**–**	**(9)**
	(25)	(31)	–	–	(56)
Rate-regulated activities	**(11)**	**(30)**	**–**	**–**	**(41)**
	(6)	(32)	–	–	(38)
Dividends on equity preferred shares of the Company	**5**	**5**	**–**	**–**	**10**
	6	5	–	–	11
Earnings for the year	**307**	**154**	**–**	**–**	**461**
	223	89	–	–	312

RESTRUCTURING COSTS

In 2016, the Company recorded restructuring costs of $9 million primarily related to staff reductions and associated severance costs.

In 2015, the Company recorded restructuring costs of $56 million. These costs were primarily related to staff reductions and associated severance costs. These costs were incurred in order to maintain the Company's competitive position while continuing with safe and reliable service for our customers.

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 December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs (1)	**9**	8	1	**60**	35	25
Finance costs on major transmission capital projects (2)	**–**	13	(13)	**–**	62	(62)
Revenues to be billed in future periods						
Deferred income taxes (3)	**(19)**	(21)	2	**(87)**	(158)	71
Impact of temperatures on revenues (4)	**–**	(8)	8	**(28)**	(20)	(8)
Regulatory decisions received	**4**	7	(3)	**18**	67	(49)
Settlement of regulatory decisions and other items	**23**	25	(2)	**(4)**	(24)	20
	17	24	(7)	**(41)**	(38)	(3)

(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) Finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred.

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

(4) 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, finance costs on major transmission capital projects and impact of colder temperatures.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes, transmission access payments, transmission capital deferral 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 2016 Annual 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 2016 Annual Financial Statements.

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 can be 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 consolidated financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 19 of the 2016 Annual Consolidated Financial Statements, which are prepared in accordance with IFRS. Management makes estimates and judgments 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 estimates and judgments 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

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not have to be adopted in the current period.

The standards issued, but not yet effective, which the Company anticipates may have a material effect on the consolidated financial statements are described below:

- 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 yet completed as of the effective date. 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 may be significantly impacted by the new revenue recognition model and transitional adjustments are currently being reviewed. The Company will not early adopt the standard.
- 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. Lessor accounting remains substantially unchanged. The Company is currently assessing the impact and will not early adopt the standard.

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2016, 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, 2016.

Internal Control Over Financial Reporting

As of December 31, 2016, 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.

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.

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, 2016.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2016, and ended on December 31, 2016, 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.

Km means kilometre.

PBR means Performance Based Regulation.

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

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2016 and 2015 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2016**	**2015**
Revenues		
Rendering of services	**738**	659
Costs and expenses		
Salaries, wages and benefits	**(83)**	(126)
Energy transmission and transportation	**(49)**	(44)
Plant and equipment maintenance	**(58)**	(69)
Fuel costs	**(4)**	(3)
Purchased power	**(19)**	(18)
Depreciation and amortization	**(116)**	(100)
Franchise fees	**(60)**	(51)
Property and other taxes	**(12)**	(11)
Other	**(45)**	(56)
	(446)	(478)
Operating profit	**292**	181
Interest income	**5**	4
Interest expense	**(88)**	(70)
Net finance costs	**(83)**	(66)
Earnings before income taxes	**209**	115
Income taxes	**(57)**	(34)
Earnings for the period	**152**	81

CONSOLIDATED STATEMENT OF CASH FLOWS

(millions of Canadian Dollars)	Three Months Ended December 31 2016	2015
Operating activities		
Earnings for the period	**152**	81
Adjustments to reconcile earnings to cash flows from operating activities	**285**	209
Changes in non-cash working capital	**(52)**	12
Cash flows from operating activities	**385**	302
Investing activities		
Additions to property, plant and equipment	**(299)**	(371)
Proceeds on disposal of property, plant and equipment	**4**	9
Additions to intangibles	**(29)**	(78)
Changes in non-cash working capital	**(21)**	70
Other	**1**	2
Cash flows used in investing activities	**(344)**	(368)
Financing activities		
Issue of long-term debt	**375**	250
Dividends paid on equity preferred shares	**(2)**	(3)
Dividends paid to Class A and Class B share owner	**(235)**	(255)
Interest paid	**(94)**	(88)
Interest received from affiliate company	**4**	4
Other	**(3)**	–
Cash flows from (used in) financing activities	**45**	(92)
Increase (decrease) in cash position	**86**	(158)
Beginning of period	**(62)**	149
End of period	**24**	(9)