CU INC.

An ATCO Company

CU INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

This Management's Discussion and Analysis (MD&A) is meant to help readers understand key operational and financial events that influenced the results of CU Inc. (our, we, us, or the Company) during the past year.

This MD&A was prepared as of February 21, 2018, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2017 (2017 Consolidated Financial Statements). 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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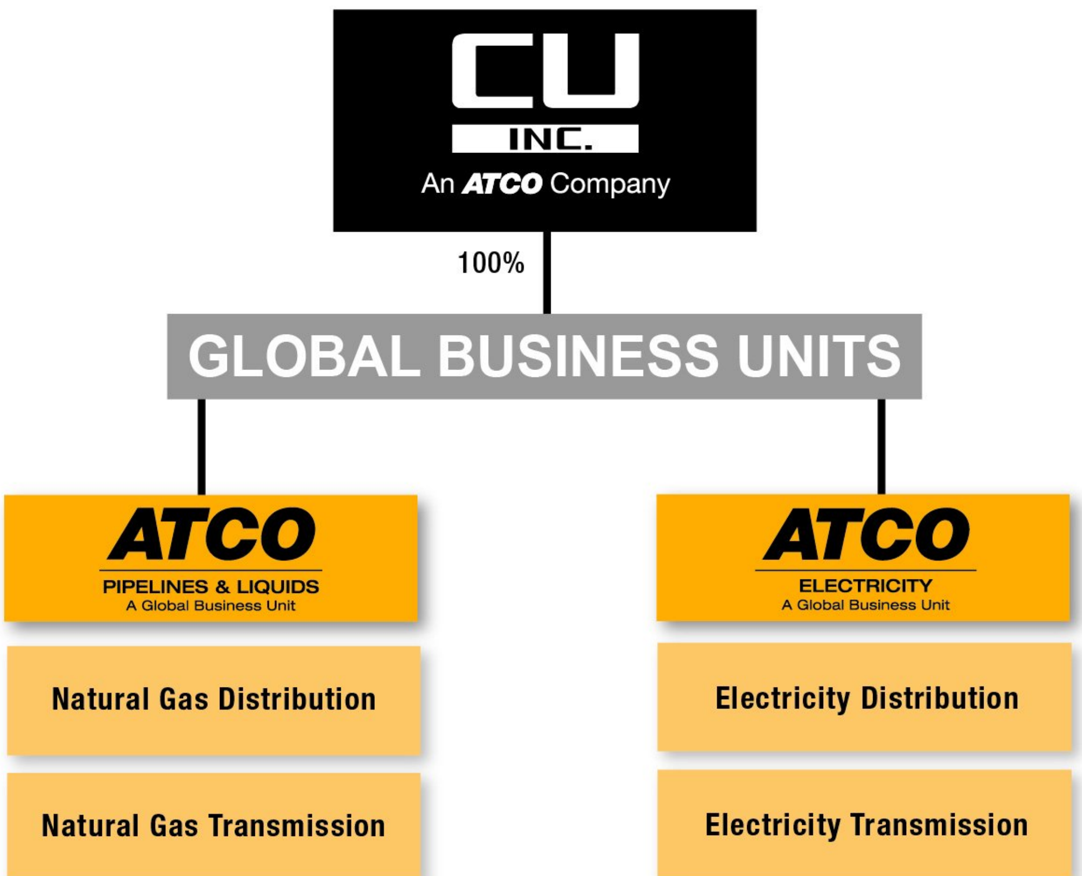
COMPANY OVERVIEW

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 $16 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

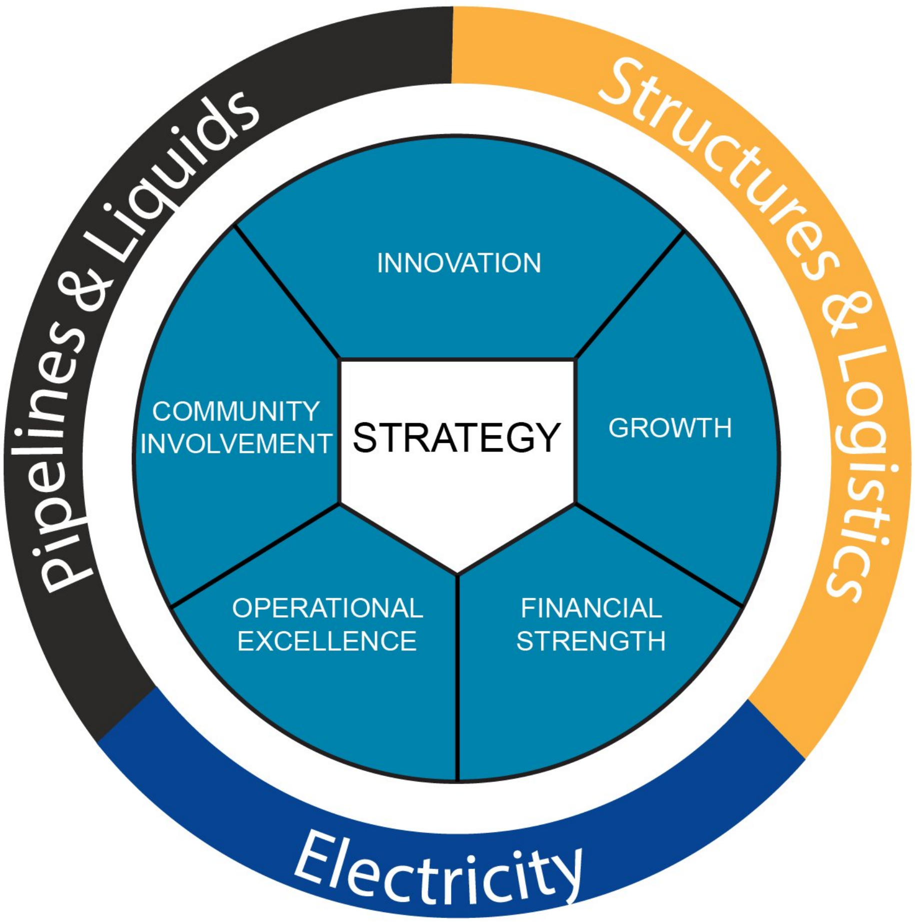


The 2017 Consolidated Financial Statements include the accounts of CU Inc. and all of its subsidiaries. The 2017 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the reporting currency is the Canadian dollar. Certain comparative figures throughout this MD&A have been reclassified to conform to the current presentation.

CU INC. STRATEGIES

Innovation, growth and financial strength provide the foundation from which we have built our company. Our long-term success depends on our ability to expand into new markets and lines of business, while offering our customers premier, comprehensive and integrated solutions to meet their needs.

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



Making life easier for our customers by offering vertically integrated infrastructure solutions around the world.

INNOVATION

The Company seeks to create a work environment where employees are encouraged to take a creative and innovative approach to meeting our customers' needs. By committing to research and development, the Company is able to offer our customers unique and imaginative solutions that differentiate us from our competitors.

GROWTH

Long-term sustainable growth is paramount. The Company approaches this strategy by fostering continuous improvement and innovation through research and development.

The ongoing exploration of opportunities to acquire assets provides the Company with additional growth potential. The Company will pursue the acquisition and development of complementary assets that have future growth potential and provide long-term value for share owners.

FINANCIAL STRENGTH

Financial strength is fundamental to the Company's current and future success. It ensures the Company has the financial capacity to fund existing and future capital investments through a combination of predictable cash flow from operations, cash balances on hand, committed credit facilities and access to capital markets. It enables the Company to sustain its operations and to grow through economic cycles, thereby providing long-term financial benefits.

The Company continuously reviews its holdings to evaluate opportunities to sell mature assets and redeploy the proceeds into growing areas of the Company. The viability of such opportunities depends on the outlook of each business as well as general market conditions. This ongoing focus supports the optimal allocation of capital across the Company.

OPERATIONAL EXCELLENCE

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

COMMUNITY INVOLVEMENT

CU Inc. maintains a respectful and collaborative community approach, where meaningful partnerships and positive relationships are built with community leaders and groups that will enhance economic and social development. Community involvement involves developing partnerships with Indigenous and community groups that may be affected by projects and operations worldwide, and building ongoing, positive Indigenous relationships that contribute to economic and social development in their communities. The Company also engages with governing authorities, regulatory bodies, and landowners. We encourage partnerships throughout the organization and at all levels that will serve to benefit non-profit organizations through volunteer efforts, providing products and services in-kind.

FURTHER COMMENTARY REGARDING STRATEGIES AND COMMITMENTS

CU Inc.'s financial and operational achievements in 2017 relative to the strategies outlined above are included in the Company's MD&A, 2017 Consolidated Financial Statements and AIF.

More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

CU INC. SCORECARD

The following scorecard outlines our performance in 2017.

STRATEGIC PRIORITIES	2017 TARGET	2017 PERFORMANCE
INNOVATION		
New and Existing Products and Services	Exploring and testing new products and methods of energy delivery to meet customers' future needs. Continuous improvement of existing products and services.	Deployed three electric vehicle fast-charging stations in Calgary, Red Deer and Edmonton. Partnered with the City of Lloydminster to employ a LED Conversion and Intelligent Street Lighting Pilot Project which included replacing more than 60 outdated, high-pressure sodium streetlights with LEDs and installing intelligent street lighting sensors. Participated in the development of a hybrid house - a micro combined heat and power (mCHP) unit which runs on natural gas or propane, and has the potential to reduce a customer's home emissions by up to 75 per cent compared with a standard built home.
GROWTH		
Regulated and Long-term Contracted Capital Investment	Invest $1.2 billion across our Utilities.	Invested $1.1 billion in our Utilities.
FINANCIAL STRENGTH		
Credit Rating	Maintain investment grade credit rating.	Maintained 'A (high)' credit rating with stable outlook with DBRS Ltd. Standard & Poor's revised its issuer rating from 'A' with a negative outlook to 'A-' with a stable outlook.
Access to Capital Markets	Access to capital at attractive rates.	Raised $430 million in debentures at 3.548 per cent, the lowest long-term interest rate in the Company's history.

STRATEGIC PRIORITIES	2017 TARGET	2017 PERFORMANCE
OPERATIONAL EXCELLENCE		
Lost-time Injury Rate: employees	Compare favourably with Alberta Occupational Health and Safety rates of 1.25 cases/200,000 hours worked.	Lost time injury rate of 0.25 cases/200,000 hours worked.
Customer Satisfaction	Achieving high service for the customers and communities we serve.	Within our Alberta electric and natural gas distribution businesses, more than 95 per cent of our customers agreed we provide good service.
COMMUNITY INVOLVEMENT		
Indigenous Relations	Continue to work together with Indigenous communities to contribute to economic and social development in their communities.	Worked closely with 23 Indigenous organizations through Parks Canada's Indigenous Forum for our Jasper Interconnect Transmission Project; this project is adding 45 km of transmission line and a new substation in Jasper National Park. Signed several Memorandums of Understanding with Indigenous communities in the Yukon to partner on the development of renewable energy and battery storage solutions, enabling each community to become direct participants in the local energy sector by owning renewable electricity sources (solar or wind) while we provide the energy storage and control systems.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.	Donated $3.3 million and more than 8,500 hours to more than 800 charities to make our communities better places to live and work in 2017.

STRATEGIC PRIORITIES FOR 2018

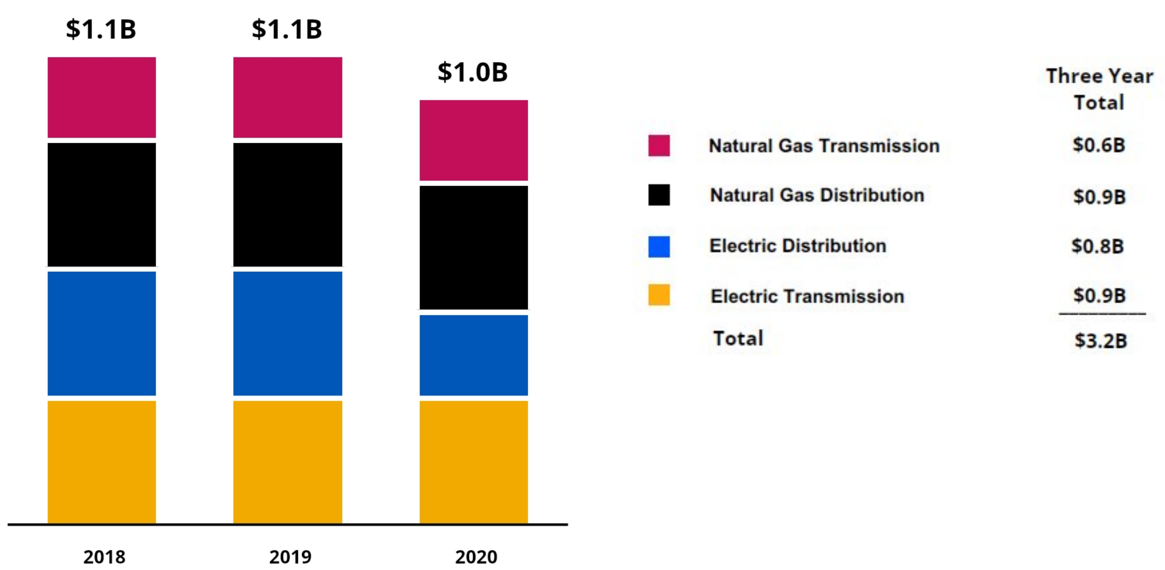
The following table outlines our strategic priorities and targets for 2018.

STRATEGIC PRIORITIES	2018 TARGET
INNOVATION	
New and existing products and services	Explore and test new products and methods of energy delivery to meet customers' future needs. Demonstrate continuous improvement of existing products and services.
GROWTH	
Regulated and long-term contracted capital investment	Invest $1.1 billion across our Utilities.
FINANCIAL STRENGTH	
Credit rating	Maintain investment grade credit rating.
Access to capital markets	Access capital at attractive rates.
OPERATIONAL EXCELLENCE	
Lost-time injury rate: employees	Reduce lost-time injury rate from 2017 amount of 0.25 cases/200,000 hours worked.
Total recordable injury frequency: employees	Continue improvement in our safety performance, in addition to comparing favourably to benchmark rates such as Alberta Occupational Health and Safety, US Private Industry, and industry best practice rates for each of our global operating units.
Customer satisfaction	Establish company-wide customer satisfaction measurement.
Organizational Transformation	Streamline and gain operational efficiencies.
COMMUNITY INVOLVEMENT	
Indigenous relations	Continue to work together with indigenous communities to contribute to economic and social development in their communities.
ATCO EPIC (Employees Participating in Communities)	Continue to administer the employee-led campaign to give employees the opportunity to contribute to charitable organizations in the communities in which they work.

CAPITAL INVESTMENT PLANS

In the 2018 to 2020 period, CU Inc. expects to invest approximately $3.2 billion in regulated utility capital growth projects. This capital expenditure is expected to contribute significant earnings and cash flow. ATCO Electric Distribution and ATCO Electric Transmission are planning to invest $1.7 billion, and ATCO Gas and ATCO Pipelines are planning to invest $1.5 billion from 2018 to 2020.

CU Inc. Future Capital Expenditures



UTILITIES PERFORMANCE

REVENUES

Revenues in 2017 were $2,626 million, $53 million higher than the same period in 2016, mainly due to growth in rate base and higher flow-through franchise fees paid to municipalities, which are recovered from customers.

ADJUSTED EARNINGS

		Three Months Ended December 31			Year Ended December 31	
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Electricity						
Electricity Distribution	**30**	28	2	**134**	129	5
Electricity Transmission	**50**	49	1	**196**	188	8
Total Electricity	**80**	77	3	**330**	317	13
Pipelines & Liquids						
Natural Gas Distribution	**60**	48	12	**144**	123	21
Natural Gas Transmission	**17**	17	–	**68**	61	7
Total Pipelines & Liquids	**77**	65	12	**212**	184	28
Total Utilities Adjusted Earnings(1)	**157**	142	15	**542**	501	41

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

In the fourth quarter and full year of 2017, our Utilities earned $157 million and $542 million, $15 million and $41 million higher than the same periods in 2016. Higher earnings were mainly due to continued capital expenditure and growth in rate base in our 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 $30 million in the fourth quarter and $134 million in the full year of 2017, $2 million and $5 million higher than the same periods in 2016. Higher earnings resulted mainly from continued capital expenditure and growth in rate base.

Electricity Transmission

Our electricity transmission business earned $50 million in the fourth quarter, $1 million higher than the same period in 2016. Higher earnings were primarily due to an increase in the approved return on equity from 8.3 per cent in 2016 to 8.5 per cent in 2017.

Our electricity transmission business earned $196 million in the full year of 2017, $8 million higher than the same period in 2016. Higher earnings were primarily due to an increase in the approved return on equity from 8.3 per cent in 2016 to 8.5 per cent in 2017, partially offset by the net impact of regulatory decisions received in 2017 that related to prior years.

PIPELINES & LIQUIDS

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

Natural Gas Distribution

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

Our natural gas distribution business earned $60 million in the fourth quarter of 2017, $12 million higher than the same period of 2016. Increased earnings for the fourth quarter of 2017 were mainly due to growth in rate base and customers. The earnings variance was also impacted by higher fourth quarter 2016 operations and maintenance costs. Our natural gas distribution business earned $144 million in 2017, $21 million higher than in 2016. Increased earnings for the period resulted primarily from growth in rate base and customers.

Natural Gas Transmission

Our natural gas transmission activities in Alberta are conducted by ATCO Pipelines. This business receives natural gas on its pipeline system 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 $17 million in the fourth quarter of 2017, comparable to the same period of 2016. Our natural gas transmission business earned $68 million in the full year of 2017, $7 million higher than in 2016, mainly due to growth in rate base.

REGULATORY DEVELOPMENTS

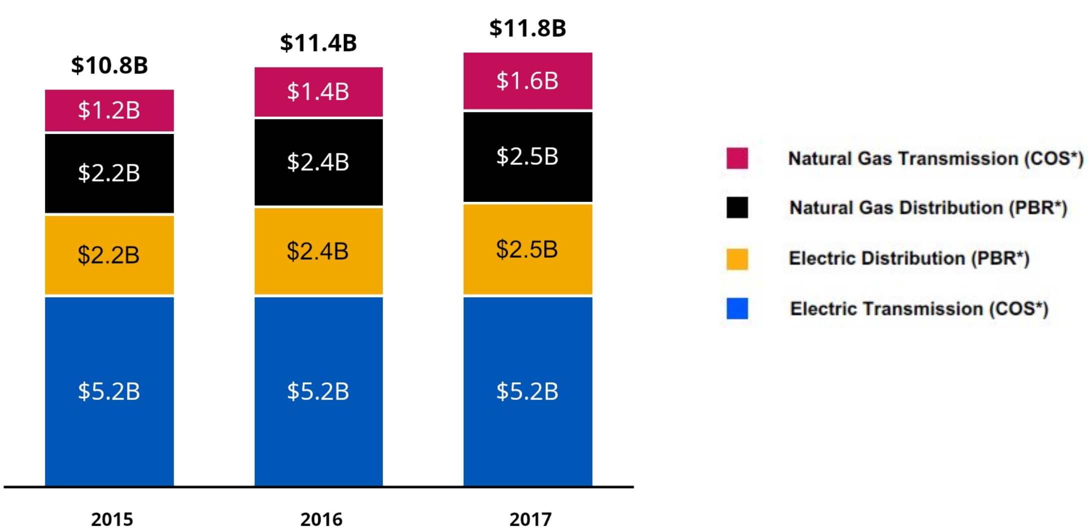
REGULATED BUSINESS MODELS

The business operations of electric distribution, electric transmission, natural gas distribution and natural gas transmission are regulated mainly by the AUC. The AUC administers acts and regulations covering such matters as rates, financing and service area.

Natural gas transmission and electric transmission operate under a cost of service regulation. Under this model, the regulator establishes the revenues to provide for a fair return on utility investment using mid-year calculations of the total investment less depreciation, otherwise known as Mid-Year Rate Base. Growth in Mid-Year Rate Base is a leading indicator of the business' earnings trend, depending on the equity ratio of the Mid-Year Rate Base and the Rate of Return on Common Equity.

Natural gas distribution and 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.

Utilities Mid-Year Rate Base



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

GENERIC COST OF CAPITAL (GCOC)

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

The following table contains the ROE and deemed common equity ratios resulting from the most recent GCOC decisions. The information reflects the most recent amending or varying orders issued after the original decision date. The table also contains the mid-year rate base for each Alberta utility.

	Year	AUC Decision	Rate of Return on Common Equity (%) (1)	Common Equity Ratio (%) (2)	Mid-Year Rate Base ($ millions)
Electric Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,476 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,361 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,228 (5)
Electric Transmission	**2017**	**2016 GCOC (3)**	**8.50 (7)**	**37.0**	**5,227 (8)**
	2016	2016 GCOC (3)	8.30 (7)	37.0	5,236 (5)
	2015	2013 GCOC (6)	8.30	36.0	5,198 (5)
Natural Gas Distribution	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**2,537 (4)**
	2016	2016 GCOC (3)	8.30	37.0	2,369 (5)
	2015	2013 GCOC (6)	8.30	38.0	2,189 (5)
Natural Gas Transmission	**2017**	**2016 GCOC (3)**	**8.50**	**37.0**	**1,633 (9)**
	2016	2016 GCOC (3)	8.30	37.0	1,407 (5)
	2015	2013 GCOC (6)	8.30	37.0	1,206 (5)

(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 mid-year rate base for 2017 is based on the 2018 to 2022 PBR Rebasing Application filed on August 16, 2017 and includes estimated mid-year work in progress of $86 million for Electric Distribution and $73 million for Natural Gas Distribution.

(5) The mid-year rate base for 2015 and 2016 is based on the Rule 005 Actuals Package and includes mid-year work in progress.

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

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

(8) The mid-year rate base for 2017 is based on the 2018 to 2019 GTA application filed on June 16, 2017 and includes mid-year work in progress.

(9) The mid-year rate base for 2017 is based on the 2017 to 2018 General Rate Application filed on October 2, 2017 and includes mid-year work in progress.

NEXT GENERATION OF PERFORMANCE BASED REGULATION

On December 16, 2016, the AUC released its decision on the second generation PBR plan framework for electricity and natural gas distribution utilities in Alberta. Under the 2018 to 2022 second generation PBR framework, utility rates will continue to be adjusted by a formula that estimates inflation annually and assumes productivity improvements. The framework also contains modified provisions for supplemental funding of capital expenditures that are not recovered as part of the base inflation less productivity formula. On February 5, 2018, the AUC released a regulatory decision that provides determinations for the going-in rates and incremental capital funding for the second generation of PBR.

The following table compares the key aspects of the PBR First Generation with the PBR Second Generation based on the AUC's February 5, 2018 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	Inflation indexes (AWE and CPI) adjusted annually
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 inflation, growth and productivity to 2017 dollars; inflated by I-X thereafter over the PBR term
Treatment of Capital Costs	• Recovered through going-in rates inflated by I-X • Significant capital costs 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 costs for the period 2013-2016. The K Bar is calculated annually and adjusted for the actual WACC • Significant capital costs that are extraordinary, not previously incurred and required by a third party recovered through a "Type I" K Factor
ROE Used for Going-in Rates	8.75%	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	+/- 300 bps of the approved ROE for two consecutive years or +/- 500 bps of the approved ROE for any single year
ROE Used for Reopener Calculation	2013 to 2016: 8.3% 2017: 8.5%	8.5% Placeholder At approved ROE pending future GCOC proceeding decisions

ALBERTA UTILITIES REGULATORY DEVELOPMENTS

Utility Asset Disposition

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

ELECTRIC TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Electric Transmission 2013 to 2014 Deferral Accounts Application

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

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

Review and Variance

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

Compliance Filing

On June 19, 2017, the AUC issued a decision on Electric Transmission's Compliance Filing relating to its 2015 to 2017 GTA. The decision adjusted Electric Transmission's 2016 and 2017 forecast allocation of labour costs between operating and maintenance expense and capital, which resulted in a decrease to second quarter 2017 adjusted earnings of $7 million, of which $6 million related to prior years.

ATCO Electric Transmission 2018 to 2019 General Tariff Application (GTA)

On June 16, 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. The application also requests approval to refund amounts collected from 2013-2016 for Construction Work in Progress (CWIP), which will result in a reduction in applied-for revenues for 2018 and 2019 as compared to 2017. This request, if approved, will also result in an increase to 2018 and 2019 rate base of approximately $130 million per year. On December 18, 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 proposed CWIP in rate-base refund will be addressed with the final approved tariff. This decision is expected in the fourth quarter of 2018.

Electric Transmission Asset Utilization Proceeding

On June 20, 2017, the AUC publicly announced its intention to commence a proceeding to consider the issue of asset utilization for electric transmission infrastructure, and how the corporate and property law principles referenced in the 2013 Utility Asset Disposition decision may relate. The AUC has not yet commenced this proceeding.

NATURAL GAS TRANSMISSION REGULATORY DEVELOPMENTS

ATCO Pipelines 2017 to 2018 General Rate Application (GRA)

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

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 has been publishing external sustainability reports since 2008. These reports include CU Inc.'s operations sustainability performance data. Reporting is based upon the internationally recognized Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, covering a broad spectrum of metrics.

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

Canadian Utilities' 2017 Sustainability Report, expected to be released in June 2018, will focus 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 will be available on Canadian Utilities' website, at www.canadianutilities.com.

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 was implemented in 2017, increasing to $30 per tonne carbon tax in 2018, $40 per tonne in 2021 and $50 per tonne in 2022.

Our natural gas distribution business is impacted by the Alberta economy-wide tax on carbon or carbon levy implemented in 2017. The Company calculates consumption from the meter and applies the levy to the tariff bill file for retailers to bill customers. The retailers pay natural gas distribution and it is responsible for monthly remittance to the Government of Alberta. This is the same process it carries out on behalf of the Government for collecting and remitting GST.

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 the Company's greenhouse gas emissions, and it has already implemented a number of programs to improve efficiency and reduce fugitive and venting emissions.

In addition, 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 for the Utilities 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 fourth quarter and full year of 2017 and 2016 is given below. These amounts are presented in accordance with IFRS accounting standards. They have not been adjusted for the timing of revenues and expenses associated with rate-regulated activities and other items that are not in the normal course of business.

		Three Months Ended December 31			Year Ended December 31	
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Operating costs	**324**	330	(6)	**1,189**	1,153	36
Depreciation and amortization	**125**	116	9	**478**	460	18
Net finance costs	**89**	83	6	**339**	327	12
Income taxes	**44**	57	(13)	**169**	172	(3)

OPERATING COSTS

In the fourth quarter of 2017, operating costs, which are total costs and expenses less depreciation and amortization, were lower by $6 million than the same period of 2016, mainly due to lower flow through franchise fees. In the full year of 2017, operating costs were $36 million higher than the same period of 2016, mainly due to colder weather causing higher demand in our natural gas distribution business.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense increased by $9 million in the fourth quarter and $18 million in the full year of 2017 when compared to the same periods in 2016, mainly due to the ongoing capital expenditure program in our Utilities.

NET FINANCE COSTS

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

INCOME TAXES

Income taxes decreased in the fourth quarter and full year of 2017 when compared to the same periods in 2016, mainly due to lower earnings in the fourth quarter and full year of 2017. Lower earnings were mainly due to timing adjustments associated with rate-regulated accounting.

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.

The following table shows the current credit ratings assigned to the Company by DBRS and S&P.

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

DBRS Limited

In July 2017, DBRS Limited (DBRS) affirmed its issuer rating of the Company as 'A (high)' with a stable trend.

Standard & Poor's

In July 2017, Standard & Poor's (S&P) revised its issuer rating of the Company from 'A' with a negative outlook to 'A-' with a stable outlook.

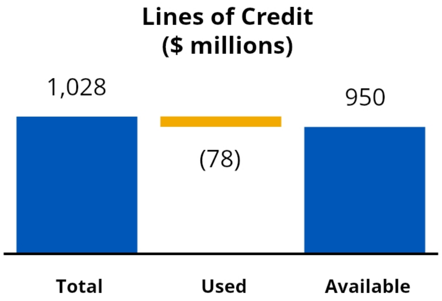
LINES OF CREDIT

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

($ millions)	Total	Used	Available
Long-term committed	**900**	–	900
Uncommitted	**128**	78	50
Total	**1,028**	78	950

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

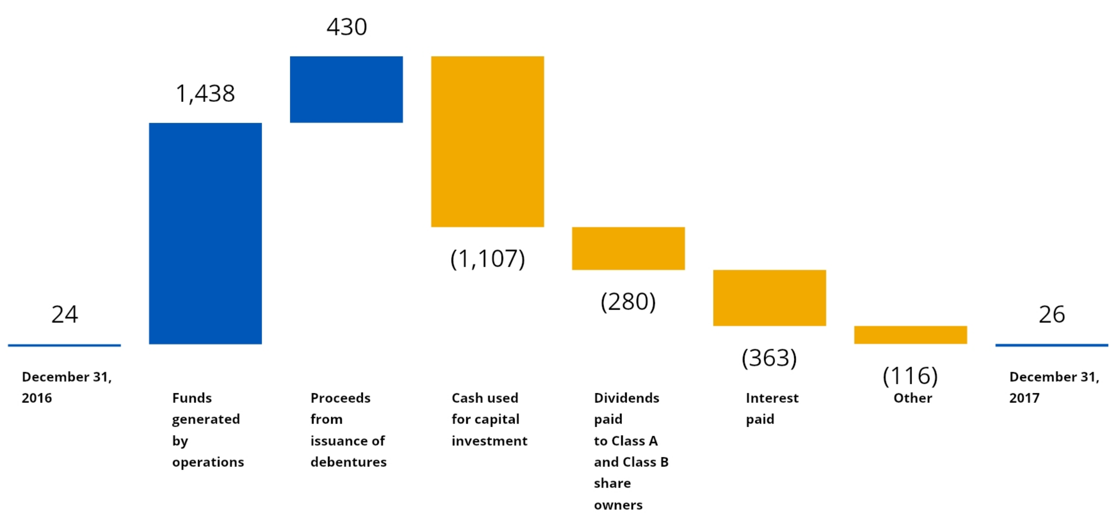
CONSOLIDATED CASH FLOW

At December 31, 2017, the Company's cash position was $26 million, an increase of $2 million compared to 2016. Major movements are outlined in the following table.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Funds generated by operations [1]	**365**	437	(72)	**1,438**	1,460	(22)
Proceeds from issuance of debentures (long-term debt)	**430**	375	55	**430**	375	55
Cash used for capital expenditures	**(371)**	(333)	(38)	**(1,107)**	(1,058)	(49)
Dividends paid to Class A and Class B share owners	**(100)**	(235)	135	**(280)**	(235)	(45)
Interest paid	**(100)**	(94)	(6)	**(363)**	(350)	(13)
Other	**(152)**	(64)	(88)	**(116)**	(159)	43
Increase in cash position	**72**	86	(14)	**2**	33	(31)

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

Changes in Consolidated Cash Flow in 2017 ($ millions)



Funds Generated by Operations

Funds generated by operations were $365 million in the fourth quarter of 2017 and $1,438 million in the full year of 2017, $72 million and $22 million lower than the same periods in 2016. The decrease was mainly due to lower customer contributions received for utility capital expenditures.

Cash Used for Capital Expenditures

Capital expenditures were $371 million in the fourth quarter and $1,107 million in the full year of 2017, $38 million and $49 million higher than the same periods in 2016, mainly due to the replacement of aging infrastructure, system upgrades, and growth projects for new customers.

Capital expenditures for the fourth quarter and full year of 2017 and 2016 is shown in the table below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Electricity Distribution	**66**	83	(17)	**227**	267	(40)
Electricity Transmission	**83**	43	40	**211**	203	8
Natural Gas Distribution	**113**	92	21	**372**	336	36
Natural Gas Transmission	**109**	115	(6)	**297**	252	45
Total [(1)]	**371**	333	38	**1,107**	1,058	49

(1) Includes additions to property, plant and equipment, intangibles and $4 million and $17 million (2016 - $5 million and $18 million) of interest capitalized during construction for the fourth quarter and full year of 2017.

Debt Issuances and Repayments

On November 22, 2017, CU Inc. issued $430 million of 3.548 per cent 30-year debentures. Proceeds from this issuance were used to fund capital expenditures, to repay existing indebtedness, and for other general corporate purposes of the Alberta Utilities.

CU Inc. also repaid $150 million of 6.145 per cent debentures at maturity on November 22, 2017.

Base Shelf Prospectuses

On May 16, 2016, CU Inc. filed a base shelf prospectus that permits it to issue up to an aggregate of $1.5 billion of debentures over the 25-month life of the prospectus. As of February 21, 2018, aggregate issuances of debentures were $805 million, with $375 million issued in 2016 and $430 million issued in 2017.

SHARE CAPITAL

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

At February 20, 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 January 1, 2016 through December 31, 2017.

($ millions)	Q1 2017	Q2 2017	Q3 2017	**Q4 2017**
Revenues	775	588	567	**696**
Earnings for the period	175	86	76	**114**
Adjusted earnings				
Electricity	95	81	74	**80**
Pipelines & Liquids	98	27	10	**77**
Total adjusted earnings	193	108	84	**157**

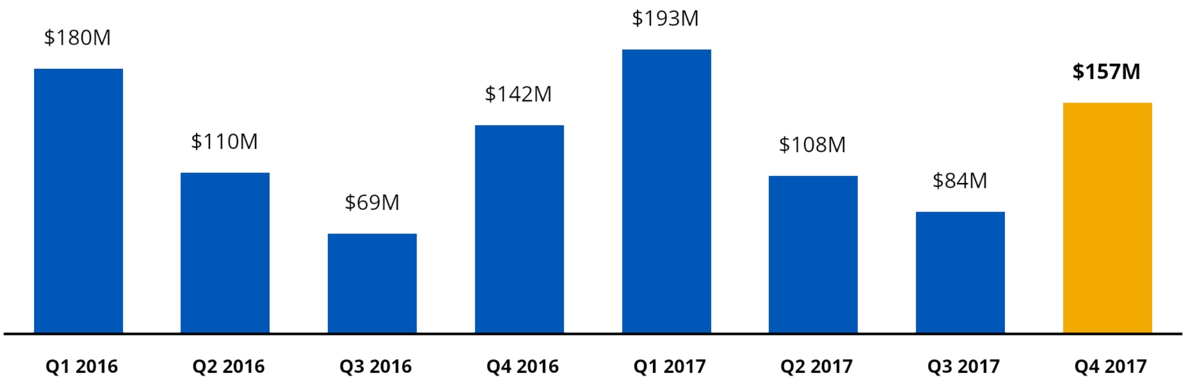
($ millions)	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Revenues	686	571	578	738
Earnings for the period	149	78	82	152
Adjusted earnings				
Electricity	88	86	66	77
Pipelines & Liquids	92	24	3	65
Total adjusted earnings	180	110	69	142

Adjusted Earnings

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

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



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

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

Business Risk: Capital Expenditure	
Businesses Impacted: • Utilities	
Description and Context	***Risk Management Approach***
The Company is subject to the normal risks associated with major capital projects, including cancellations, 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 expenditures for the Utilities are based on the following significant assumptions: projects identified by the AESO will proceed as currently scheduled; the remaining planned capital expenditures 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	**Associated Strategies:** Financial Strength
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, lease receivable and receivable under service concession arrangement 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 other credit risks by dealing with credit-worthy counterparties, following established credit-approval policies, and requiring credit security, such as letters of credit. Substantially all of the loans and receivables are from the Company's operations in Alberta. The Utilities are able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any material losses from 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 cyber attacks including unauthorized access of confidential information and outage of critical infrastructure.	CU Inc. has an enterprise wide cybersecurity program that covers all technology assets. 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	
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	
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***
The Pipelines & Liquids Global Business Unit has 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 Natural Gas Distribution's and Natural Gas Transmission's UPR programs and Natural Gas Distribution's 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. ATCO Electric Distribution and ATCO Gas operate under a performance based regulation (PBR). Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery.	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 and continuously look for ways to lower operating costs while maintaining service levels.

Business Risk: Liquidity	
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, 2017, the Company’s cash position was $26 million and there were available committed and uncommitted lines of credit of approximately $950 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)	2018	2019	2020	2021	2022	2023 and thereafter
Financial Liabilities						
Bank indebtedness	3	–	–	–	–	–
Accounts payable and accrued liabilities	461	–	–	–	–	–
Accounts payable to parent and affiliate companies	41	–	–	–	–	–
Long-term debt:						
Principal	–	483	100	160	125	6,740
Interest expense	368	351	337	325	309	6,423
	873	834	437	485	434	13,163
Commitments						
Operating leases	12	7	6	6	3	18
Purchase obligations:						
Operating and maintenance agreements	239	230	87	84	79	156
Capital expenditures	46	–	–	–	–	–
Other	6	–	–	–	–	–
	303	237	93	90	82	174
Total	1,176	1,071	530	575	516	13,337

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 2017 Consolidated Financial Statements.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

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

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

($ millions) — **Three Months Ended December 31**

2017 **2016**	**Electricity**	**Pipelines & Liquids**	**Intersegment Eliminations**	**Consolidated**
Revenues	**321**	**376**	**(1)**	**696**
	366	372	–	738
Adjusted earnings	**80**	**77**	–	**157**
	77	65	–	142
Restructuring costs	–	–	–	–
	(4)	(5)	–	(9)
Rate-regulated activities	**(51)**	**6**	–	**(45)**
	2	15	–	17
Dividends on equity preferred shares of the Company	**1**	**1**	–	**2**
	1	1	–	2
Earnings for the period	**30**	**84**	–	**114**
	76	76	–	152

($ millions) — **Year Ended December 31**

2017 **2016**	**Electricity**	**Pipelines & Liquids**	**Intersegment Eliminations**	**Consolidated**
Revenues	**1,273**	**1,355**	**(2)**	**2,626**
	1,370	1,203	–	2,573
Adjusted earnings	**330**	**212**	–	**542**
	317	184	–	501
Restructuring costs	–	–	–	–
	(4)	(5)	–	(9)
Rate-regulated activities	**(131)**	**30**	–	**(101)**
	(11)	(30)	–	(41)
Dividends on equity preferred shares of the Company	**5**	**5**	–	**10**
	5	5	–	10
Earnings for the period	**204**	**247**	–	**451**
	307	154	–	461

RESTRUCTURING COSTS

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

RATE-REGULATED ACTIVITIES

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. In the absence of this guidance, the utilities do not recognize assets and liabilities from rate-regulated activities as may be directed by regulatory decisions. Instead, the utilities recognize revenues in earnings when amounts are billed to customers, consistent with the regulator-approved rate design. Operating costs and expenses are recorded when incurred. Costs incurred in constructing an asset that meet the asset recognition criteria are included in the related property, plant and equipment or intangible asset.

As a result, the Company uses standards issued by the Financial Accounting Standards Board (FASB) in the United States as another source of GAAP to account for rate-regulated activities in its internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM believes that earnings presented in accordance with the FASB standards are a better representation of the operating results of the Company's rate-regulated activities. Therefore, the Company presents adjusted earnings as part of its segmented disclosures on this basis. Rate-regulated accounting (RRA) standards impact the timing of how certain revenues and expenses are recognized when compared to non-rate regulated activities, to appropriately reflect the economic impact of regulators' decisions on revenues.

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

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**7**	9	(2)	**61**	60	1
Revenues to be billed in future periods						
Deferred income taxes [2]	**(26)**	(19)	(7)	**(99)**	(87)	(12)
Impact of warmer temperatures [3]	**–**	–	–	**(4)**	(28)	24
Regulatory decisions received	**1**	4	(3)	**17**	18	(1)
Settlement of regulatory decisions and other items [4]	**(27)**	23	(50)	**(76)**	(4)	(72)
	(45)	17	(62)	**(101)**	(41)	(60)

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

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

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

(4) In 2017, Electric Transmission recorded an increase in adjusted earnings of $33 million in relation to settlement of final 2015-2017 General Tariff Application rate and $27 million in relation to refund of previously collected capitalized pension 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.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
Revenues to be billed in future periods	Deferred income taxes and impact of warmer temperatures.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
Regulatory decisions received	For further details on regulatory decisions that caused a timing adjustment financial impact, refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the 2017 Consolidated Financial Statements.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

For further details on additional revenues billed in the current period, revenues to be billed in future periods, and settlement of regulatory decisions and other items, refer to the Segmented Information presented in Note 3 of the 2017 Consolidated 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 is party to a number of disputes and lawsuits in the normal course of business. The Company believes the ultimate liability arising from these matters will have no material impact on its consolidated financial statements.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting estimates are described in Note 19 of the 2017 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 need 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. For further information, see note 24 of the 2017 Consolidated Financial Statements.

- 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 expected to be 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.
- 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 are impacted by the new revenue recognition model.
- 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, 2017, 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, 2017.

Internal Control Over Financial Reporting

As of December 31, 2017, 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, 2017.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2017, and ended on December 31, 2017, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FORWARD-LOOKING INFORMATION

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

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

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

GLOSSARY

AUC means the Alberta Utilities Commission.

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

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

CODM means Chief Operating Decision Maker, and is comprised of the Chair, President and Chief Executive Officer, and 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.

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2017 and 2016 is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2017**	**2016**
Revenues		
Rendering of services	**696**	738
Costs and expenses		
Salaries, wages and benefits	**(71)**	(83)
Energy transmission and transportation	**(49)**	(49)
Plant and equipment maintenance	**(48)**	(58)
Fuel costs	**(5)**	(4)
Purchased power	**(21)**	(19)
Depreciation and amortization	**(125)**	(116)
Franchise fees	**(55)**	(60)
Property and other taxes	**(15)**	(12)
Other	**(60)**	(45)
	(449)	(446)
Operating profit	**247**	292
Interest income	**3**	5
Interest expense	**(92)**	(88)
Net finance costs	**(89)**	(83)
Earnings before income taxes	**158**	209
Income taxes	**(44)**	(57)
Earnings for the period	**114**	152

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended December 31	
(millions of Canadian Dollars)	**2017**	**2016**
Operating activities		
Earnings for the period	**114**	152
Adjustments to reconcile earnings to cash flows from operating activities	**251**	285
Changes in non-cash working capital	**(6)**	(52)
Cash flows from operating activities	**359**	385
Investing activities		
Additions to property, plant and equipment	**(338)**	(299)
Proceeds on disposal of property, plant and equipment	–	4
Additions to intangibles	**(29)**	(29)
Changes in non-cash working capital	**26**	(21)
Other	**1**	1
Cash flows used in investing activities	**(340)**	(344)
Financing activities		
Repayment of short-term debt	**(25)**	–
Issue of long-term debt	**430**	375
Repayment of long-term debt	**(150)**	–
Dividends paid on equity preferred shares	**(2)**	(2)
Dividends paid to Class A and Class B share owner	**(100)**	(235)
Interest paid	**(100)**	(94)
Interest received from affiliate company	**4**	4
Long-term debt issue costs	**(3)**	(3)
Other	**(1)**	–
Cash flows from financing activities	**53**	45
Increase in cash position	**72**	86
Beginning of period	**(46)**	(62)
End of period	**26**	24