CU INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 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, or the Company) during the six months ended June 30, 2016.

This MD&A was prepared as of July 26, 2016, and should be read with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2016. Additional information, including the Company's prior MD&As (2015 MD&A), Annual Information Form (2015 AIF) and audited consolidated financial statements for the year ended December 31, 2015, is available on SEDAR at www.sedar.com. Information contained in the 2015 MD&A is not discussed in this MD&A if it remains substantially unchanged.

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

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

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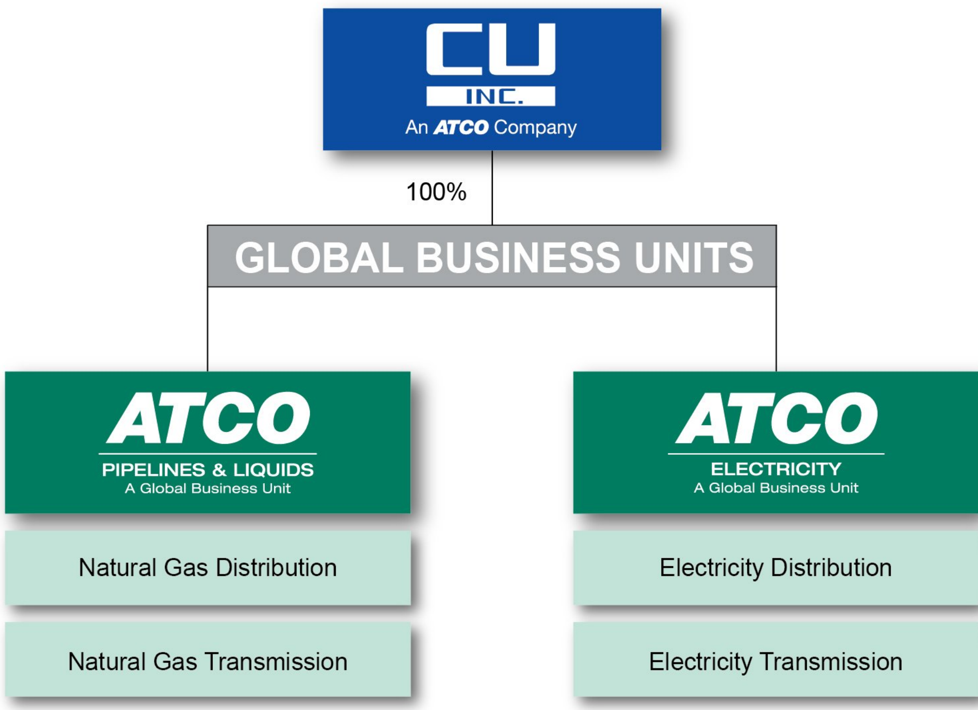
COMPANY OVERVIEW

CU Inc. is a wholly-owned subsidiary of Canadian Utilities Limited, an ATCO Company. CU Inc. is an Alberta-based corporation with more than 4,300 employees and assets of approximately $15 billion; comprised of rate regulated utility operations in pipelines, natural gas and electricity transmission and distribution. More information about CU Inc. can be found on the Canadian Utilities Limited website at www.canadianutilities.com.

The unaudited interim 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.

SIMPLIFIED ORGANIZATIONAL STRUCTURE



UTILITIES INFORMATION

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.

REVENUES

Revenues in the Utilities of $571 million in the second quarter and $1,257 million in the first half of 2016 were $25 million and $49 million higher than same periods in 2015. Increased revenues are primarily attributable to rate base growth.

ADJUSTED EARNINGS

Adjusted earnings for each of the Utilities are shown in the table below.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Electricity						
ATCO Electric Distribution	**36**	29	7	**73**	47	26
ATCO Electric Transmission	**50**	58	(8)	**101**	85	16
Total Electricity	**86**	87	(1)	**174**	132	42
Pipelines & Liquids						
ATCO Gas	**10**	5	5	**87**	68	19
ATCO Pipelines	**14**	11	3	**29**	19	10
Total Pipelines & Liquids	**24**	16	8	**116**	87	29
Total Utilities Adjusted Earnings(1)	**110**	103	7	**290**	219	71

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

In the second quarter and first half of 2016, adjusted earnings generated by the Utilities of $110 million and $290 million were $7 million and $71 million higher than the same periods of 2015. Higher earnings are primarily attributable to continued capital investment, rate base growth and business-wide cost reduction initiatives.

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, transmission and distributed generation 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 were $7 million higher in the second quarter and $26 million higher in the first half of 2016 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 2013 General Cost of Capital (GCOC) and Capital Tracker regulatory decisions received in the first quarter of 2015.

Electricity Transmission

ATCO Electric Transmission's adjusted earnings of $50 million in the second quarter of 2016 were $8 million lower than the same period in 2015. Second quarter 2015 results included prior period earnings associated with the AUC's approval of interim rates for ATCO Electric Transmission's 2015 to 2017 General Tariff Application. Adjusted earnings of $101 million in the first half of 2016 were $16 million higher than the same period of 2015. Higher earnings for the period resulted primarily from growth in rate base, business-wide cost reduction initiatives, and the adverse impact associated with the GCOC regulatory decision received in the first quarter of 2015.

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 $10 million and $87 million in the second quarter and first half of 2016 were higher when compared to the same periods 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 $14 million and $29 million in the second quarter and first half of 2016 were higher when compared to the same periods of 2015. Higher earnings for the periods resulted primarily from growth in rate base and the adverse earnings impact associated with the GCOC regulatory decision received in the first quarter of 2015.

NORTHERN ALBERTA FIRES

In May 2016, CU Inc. rapidly responded to wildfires in the Fort McMurray region of northern Alberta by mobilizing teams from across Alberta to provide accommodation for first responders and evacuees, and rebuild utility infrastructure that was damaged by the wildfires. The fires impacted the assets of the Company. Insurance coverage applies to the Company’s property with the exception of small diameter natural gas pipelines and meters and electric property outside of transmission substations including wires, poles, towers, transformers and meters. The estimated net book value of the damaged assets is less than $10 million.

REGULATORY DEVELOPMENTS

Generic Cost of Capital (GCOC)

In March 2015, the Company received the AUC 2013 GCOC decision. The decision established the return on equity (ROE) and deemed common equity ratios for the Utilities for 2013 to 2015. The ROE was set at 8.30 per cent for each of 2013, 2014 and 2015. These rates will remain in place on an interim basis for 2016 until such time as the AUC issues a decision on final rates as part of the 2016 GCOC proceeding. The 2016 GCOC hearing was completed in June 2016 and a decision is expected by the end of this year.

ATCO Electric Transmission 2015 to 2017 General Tariff Application

In March 2015, ATCO Electric Transmission filed a General Tariff Application for its operations for 2015, 2016 and 2017. The application requests, among other things, additional revenues to recover higher depreciation, operating costs and financing associated with increased rate base in Alberta. ATCO Electric Transmission updated its 2015 to 2017 General Tariff Application in December 2015 and February 2016, modifying its application requests with updated forecast costs. A decision is expected from the AUC in the third quarter of 2016.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the three and six months ended June 30, 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 June 30			Six Months Ended June 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Operating costs	**271**	277	(6)	**558**	585	(27)
Depreciation and amortization	**112**	96	16	**226**	191	35
Net finance costs	**81**	54	27	**162**	110	52
Income taxes	**29**	95	(66)	**84**	146	(62)

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, decreased in the second quarter and in the first half of 2016, when compared to the same periods in 2015. The lower costs reflect the Company's restructuring exercise in 2015, leading to ongoing business-wide cost reduction initiatives.

DEPRECIATION AND AMORTIZATION

In the second quarter and first half of 2016, depreciation and amortization expense increased by $16 million and $35 million, respectively, compared to the same periods in 2015. The increased expense was mainly due to the ongoing significant capital investment program by the Utilities.

NET FINANCE COSTS

Net finance costs increased in the second quarter and first half 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 due to 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 significant capital investment program.

INCOME TAXES

Income taxes decreased in the second quarter and first half of 2016, when compared to the same periods in 2015. The decrease is primarily due to a tax adjustment in the second quarter of 2015, reflecting 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 regulated 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.

The Company considers it prudent to maintain enough liquidity to fund approximately one full year of cash requirements to preserve strong financial flexibility. Liquidity is generated by cash flow from operations and is supported by appropriate levels of cash and available committed credit facilities.

On July 21, 2016, Standard & Poor's Rating Services affirmed its 'A' long-term corporate credit rating on CU Inc.

LINES OF CREDIT

At June 30, 2016, the Company and its subsidiaries had the following lines of credit.

($ millions)	Total	Used	Available
Long-term committed	**900**	1	899
Uncommitted	**128**	34	94
Total	**1,028**	35	993

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 2017 and 2018, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.

CONSOLIDATED CASH FLOW

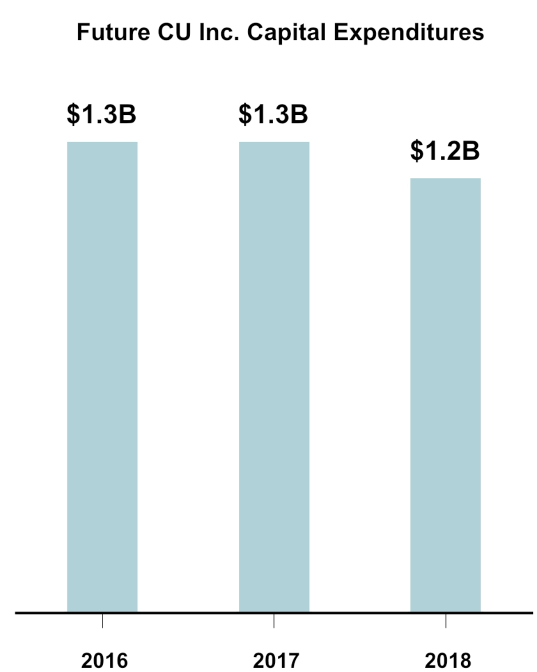
At June 30, 2016, the Company's cash position was $20 million, an increase of $29 million from December 31, 2015. The main drivers for the increase in cash are earnings achieved by the Company in the period, partially offset by cash used to fund the significant capital investments and higher interest paid on the debt issued to fund these capital investments.

Funds generated by operations

Funds generated by operations (see "Non-GAAP and Additional GAAP Measures" section of this MD&A) were $305 million in the second quarter and $712 million in the first half of 2016, compared to $287 million and $710 million, respectively, in the same periods of 2015. The increases were mainly the result of higher earnings for the period, partially offset by lower contributions received from customers for capital expenditures as a result of lower capital spending year-over-year.

Capital Expenditures

In the 2016 to 2018 period, CU Inc. expects to invest approximately $3.8 billion in regulated utility capital growth projects. This capital investment is expected to contribute significant earnings and cash flow and create long term value for investors. ATCO Electric is planning to invest approximately $2.1 billion, and ATCO Gas and ATCO Pipelines are planning to invest approximately $1.7 billion from 2016 to 2018.



Cash used for capital expenditures

Cash used for capital expenditures was $257 million in the second quarter and $463 million in the first half of 2016, compared to $306 million and $617 million in the same periods of 2015. The decreases were primarily due to previously disclosed and planned lower capital spending in ATCO Electric Distribution and ATCO Electric Transmission year-over-year.

Capital expenditures for the three and six months ended June 30, 2016 and 2015 are shown in the following table.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
ATCO Electric Distribution	**62**	84	(22)	**118**	175	(57)
ATCO Electric Transmission	**64**	104	(40)	**113**	237	(124)
ATCO Gas	**95**	84	11	**155**	141	14
ATCO Pipelines	**36**	34	2	**77**	64	13
Total (1)	**257**	306	(49)	**463**	617	(154)

(1) Includes additions to property, plant and equipment, intangibles and $4 million and $8 million (2015 - $25 million and $49 million) of interest capitalized during construction for the second quarter and first half of 2016.

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. No debentures have been issued to date under this base shelf prospectus. Effective June 1, 2016, the annual dividend rate on CU Inc.'s Cumulative Redeemable Preferred Shares Series 4 was reset 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 July 25, 2016, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended September 30, 2014 through June 30, 2016.

($ millions)	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Revenues	504	659	686	**571**
Earnings for the period	55	81	149	**78**
Adjusted earnings				
Electricity	72	44	88	**86**
Pipelines & Liquids	(2)	62	92	**24**
Total adjusted earnings	70	106	180	**110**

($ millions)	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Revenues	468	601	662	546
Earnings for the period	47	104	152	24
Adjusted earnings				
Electricity	79	66	45	87
Pipelines & Liquids	10	63	71	16
Total adjusted earnings	89	129	116	103

The large capital expenditures made by the Utilities in the previous eight quarters has contributed to a general increase in adjusted earnings. This growth is most evident in ATCO Electric Transmission's operations, where significant capital has been added as a result of the expansion and reinforcement of the transmission network in several regions of Alberta. These investments earn a return under a regulated business model and drive growth in adjusted earnings. Utilities' adjusted earnings have also been affected by the timing of certain major regulatory decisions. Higher adjusted earnings in the third quarter of 2014 reflect the positive impact of the retroactive component of the 2014 Interim Rates Decisions on distribution operations in Electricity. Earnings in the first quarter of 2015 are reflective of the financial impact of the GCOC and Capital Tracker decisions. Lower earnings in the fourth quarter of 2015 were mainly due to regulatory lag which required an update to the forecast costs as compared to prospective costs originally filed in ATCO Electric Transmission's 2015 to 2017 General Tariff Application. Due to the seasonal nature of demand for natural gas, ATCO Gas typically achieves lower earnings in the second and third quarters of any year which impacts overall Utilities earnings. Higher earnings in the first half of 2016 are reflective of continued capital investment and rate base growth and business-wide cost reduction initiatives.

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 without changes in non-cash working capital. Funds generated by operations does not have any standardized meaning under IFRS and might not be comparable to similar measures presented by other companies.

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

Adjusted earnings present earnings from rate-regulated activities on the same basis as was used prior to adopting IFRS - that basis being the U.S. accounting principles for rate-regulated activities. Management's view is that adjusted earnings allow for a more effective analysis of operating performance and trends. A reconciliation of adjusted earnings to earnings for the period is presented in this MD&A. Adjusted earnings is an additional GAAP measure presented in Note 3 to the 2016 unaudited interim consolidated financial statements.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE PERIOD

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

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

($ millions)					**Three Months Ended June 30**
2016 **2015 (Restated)** [1]	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**323**	**248**	**–**	**–**	**571**
	301	246	–	(1)	546
Adjusted earnings	**86**	**24**	**–**	**–**	**110**
	87	16	–	–	103
Restructuring costs	**–**	**–**	**–**	**–**	**–**
	(2)	–	–	–	(2)
Rate-regulated activities	**(15)**	**(20)**	**–**	**–**	**(35)**
	(55)	(25)	–	–	(80)
Dividends on equity preferred shares of the Company	**1**	**2**	**–**	**–**	**3**
	1	2	–	–	3
Earnings for the period	**72**	**6**	**–**	**–**	**78**
	31	(7)	–	–	24

($ millions)					**Six Months Ended June 30**
2016 **2015 (Restated)** [1]	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues	**669**	**588**	**–**	**–**	**1,257**
	623	586	–	(1)	1,208
Adjusted earnings	**174**	**116**	**–**	**–**	**290**
	132	87	–	–	219
Restructuring costs	**–**	**–**	**–**	**–**	**–**
	(2)	–	–	–	(2)
Rate-regulated activities	**(22)**	**(47)**	**–**	**–**	**(69)**
	(25)	(22)	–	–	(47)
Dividends on equity preferred shares of the Company	**3**	**3**	**–**	**–**	**6**
	3	3	–	–	6
Earnings for the period	**155**	**72**	**–**	**–**	**227**
	108	68	–	–	176

(1) During the fourth quarter of 2015, the Company reorganized its operating subsidiaries into the segments above. Comparative amounts for prior periods have been restated to reflect the realigned segments.

RATE-REGULATED ACTIVITIES

There is currently no specific guidance under IFRS for rate-regulated entities that the Company is eligible to adopt. Prior to adopting IFRS, the Company used standards for rate-regulated operations issued by the Financial Accounting Standards Board (FASB) in the United States as a source of generally accepted accounting principles. The Company continues to use these FASB standards to fairly present the operating results of its rate-regulated activities.

Rate-regulated accounting reduces earnings volatility as the Company defers the recognition of revenue when cash is received in advance of future expenditures and it recognizes revenue for recoverable costs incurred in advance of future billings to customers. Under IFRS, the Company records revenues when amounts are billed to customers and recognizes costs when they are incurred. The Company does not recognize their recovery until changes to customer rates are reflected in future customer billings.

Under rate-regulated accounting, the Company recognizes revenues from regulatory decisions that relate to current and prior periods when the decisions are received. Under IFRS, the Company recognizes those revenues when customer rates are changed and customers are billed.

Finally, under rate-regulated accounting, amounts relating to intercompany profits recognized in rate base by a regulator are not eliminated on consolidation. Under IFRS, however, intercompany profits are eliminated on consolidation. The Company then recognizes those profits in earnings when amounts are billed to customers over the life of the asset.

Timing adjustments made in rate-regulated accounting are shown in the following table.

	Three Months Ended June 30			Six Months Ended June 30		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Additional revenues billed in current period [1]	**23**	29	(6)	**48**	56	(8)
Revenues to be billed in future period [2]	**(54)**	(98)	44	**(100)**	(148)	48
Regulatory decisions related to current and prior periods [3]	**(4)**	(11)	7	**(17)**	45	(62)
Total adjustments	**(35)**	(80)	45	**(69)**	(47)	(22)

Notes:

(1) Additional revenues billed in current period

These adjustments are primarily comprised of future removal and site restoration costs, where customers are billed over the life of the associated assets in advance of future expenditures, and finance costs incurred by ATCO Electric during construction of major transmission capital projects are billed to customers when incurred. Under rate-regulated accounting, the finance costs billed to customers are deferred. The deferred revenues will be recognized in adjusted earnings over the service life of the related assets.

(2) Revenues to be billed in future period

Deferred income taxes are the most significant adjustment item in this category. Deferred income taxes are not recovered from customers until income taxes are paid. Deferred income taxes are a non-cash expense resulting from temporary differences between the book value and the tax value of assets and liabilities. Income taxes are billed to customers when paid by the Company. Under rate-regulated accounting, revenues are recognized in the current period for the deferred income taxes to be billed to customers in future periods. The revenues will reverse when the temporary differences that gave rise to the deferred income taxes reverse in future periods.

The impact of warmer temperatures in the first half of 2016 also had an impact on revenues in this category. 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. Under rate-regulated accounting, revenues above or below the norm in the current period are deferred and refunded to or recovered from customers in future periods.

(3) Regulatory decisions related to current and prior periods

Refer to the Regulatory Developments section in this MD&A as well as the Segmented Information presented in Note 3 of the unaudited interim consolidated financial statements for the six months ended June 30, 2016.

OTHER FINANCIAL INFORMATION

ACCOUNTING CHANGES

Certain new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not have to be adopted in the current period. These standards remain substantially unchanged from the 2015 MD&A.

There were no new or amended standards issued by the IASB or IFRIC in the second quarter of 2016 that the Company anticipates will have a material effect on the unaudited interim consolidated financial statements or note disclosures.

CONTROLS AND PROCEDURES

Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on April 1, 2016, and ended on June 30, 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 this forward-looking 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.

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

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.