CU INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2014

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

This MD&A was prepared as of February 19, 2015, and should be read with the Company's audited consolidated financial statements for the year ended December 31, 2014 (2014 Annual 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 R.D. Southern.

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

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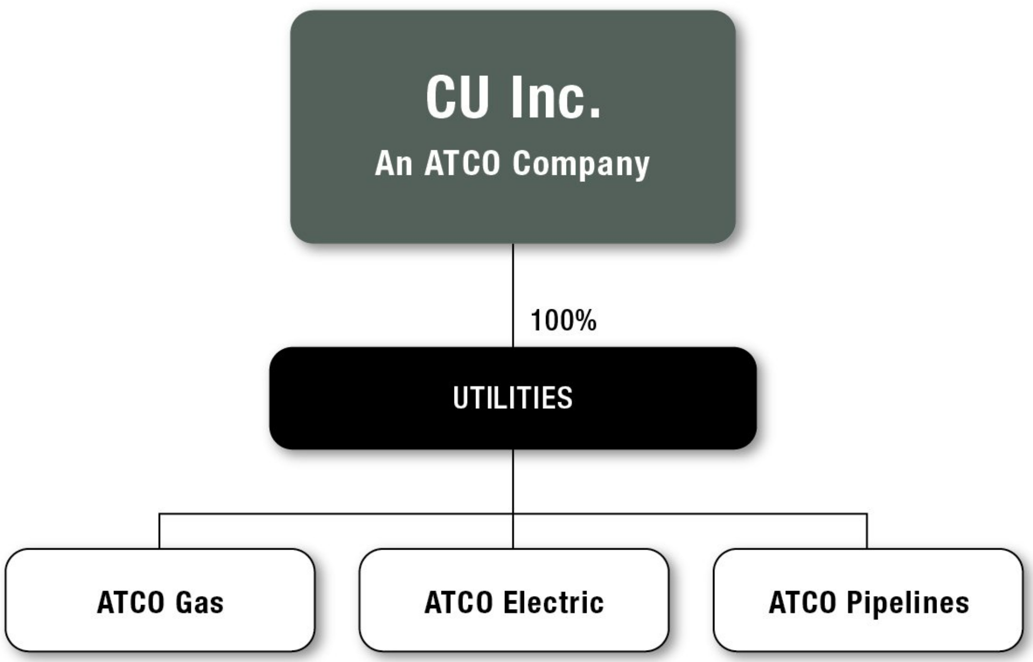
COMPANY OVERVIEW

CU Inc. is a wholly owned subsidiary of Canadian Utilities Limited, an ATCO Company. An Alberta-based corporation with more than 5,400 employees and assets of approximately $14 billion, CU Inc. is 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 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



SIGNIFICANT DEVELOPMENTS

FINANCING

On September 5, 2014, CU Inc. issued $1 billion of 4.085 per cent 30-year debentures, which was the single largest long-dated corporate bond on record in Canada. In addition, on October 17, 2014, CU Inc. issued $200 million of 4.094 per cent 40-year debentures. Proceeds from these two issuances were used to finance capital expenditures, to repay existing indebtedness, and for other general corporate purposes of the Utilities.

PERFORMANCE OVERVIEW

FINANCIAL METRICS

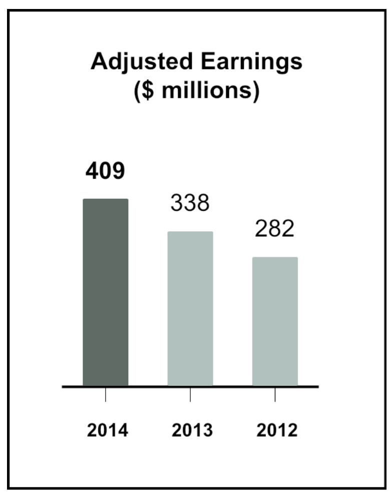
The following chart summarizes key financial metrics associated with the Company's financial performance.

		Year Ended December 31	
($ millions)	**2014**	**2013**	**2012**
Key Financial Metrics			
Adjusted earnings	**409**	338	282
Earnings for the year	**407**	372	330
Capital expenditures (including capitalized interest)	**2,079**	2,178	2,142
Revenues	**2,246**	2,040	1,844
Total assets	**13,522**	11,744	10,002
Long-term debt	**6,269**	5,177	4,285
Class A and Class B share owner's equity	**3,952**	3,452	2,898
Funds generated by operations	**1,219**	1,196	1,006

ADJUSTED EARNINGS

The Company's adjusted earnings in 2014 were $409 million, a $71 million increase over the prior year.

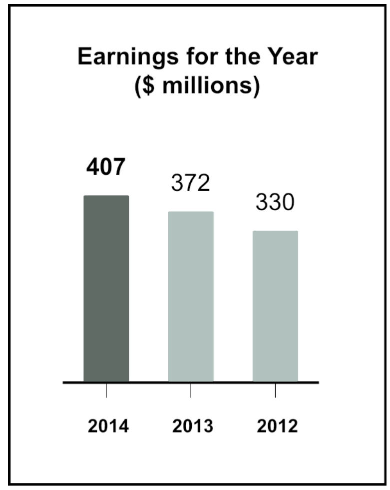
The Company continues to make significant investment in utility infrastructure in Alberta, notably in electricity transmission facilities. Capital expenditures of $2.1 billion were comparable to the $2.2 billion invested in 2013. Over the last three years, capital expenditures in the Utilities totaled $6.4 billion. This investment has translated into significant growth in the Utilities' adjusted earnings.



EARNINGS FOR THE YEAR

Earnings for the year were higher at $407 million in 2014 compared to $372 million for the same period in 2013.

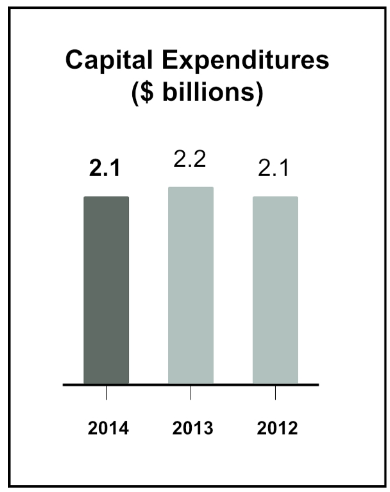
Earnings for the year are adjusted for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. More information on these items is available in the "Reconciliation of Adjusted Earnings to Earnings for the Year" section in this MD&A.



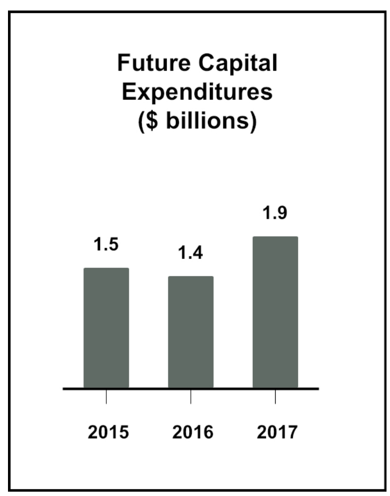
CAPITAL EXPENDITURES

Total capital expenditures of $2.1 billion in 2014 were consistent with the high levels reported in 2013 and 2012.

The majority of the Utilities' expenditure was in the transmission operations of ATCO Electric and was predominantly for Alberta Electric System Operator (AESO) direct-assigned projects. Several large transmission infrastructure projects are underway.

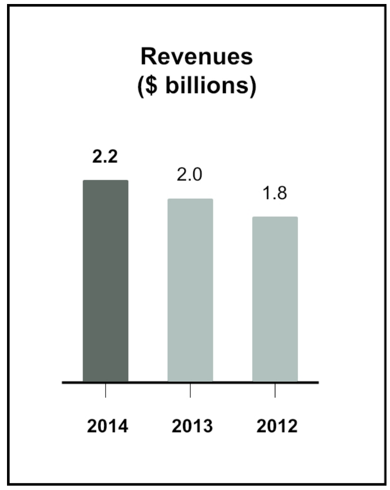


A further $4.8 billion of capital expenditures are expected in the three-year period from 2015 to 2017. Of this amount, ATCO Electric is planning to invest $3.1 billion, including $1.2 billion related to projects directly assigned from the AESO to meet the needs it has identified to reinforce and expand Alberta's electricity transmission system to meet future demand. ATCO Gas and ATCO Pipelines are planning to invest the balance of $1.7 billion from 2015 to 2017.



REVENUES

Revenues in 2014 were $2.2 billion, which were $206 million higher than 2013. The main reason for the increase was the higher revenues in the distribution operations of ATCO Gas and ATCO Electric as the interim 2014 Performance Based Regulation (PBR) rates were higher than the interim 2013 PBR rates. In addition, revenues in the distribution operations of ATCO Gas increased as a result of higher transmission rates paid to the transmission services provider and higher franchise fees paid to municipalities, both of which are recovered from customers. Revenues also reflected increased capital investment in utility infrastructure, more customers and higher demand for energy largely resulting from colder weather.



ASSETS, DEBT AND EQUITY

The Company's total assets, long-term debt and Class A and Class B share owner's equity reflect the significant growth during 2014 and how that growth was financed. Total assets grew from $12 billion at the beginning of 2014 to $14 billion at year end mainly due to significant capital investment in the electricity transmission operations of the business.

To finance this asset expansion, the Company added long-term debt of $1.2 billion in 2014. The Company capitalized on the current low interest rate environment and the capital markets' acceptance of the Company's public debt offerings by issuing $1 billion of 30-year debt, and $200 million of 40-year debt, at attractive interest rates of 4.085 per cent and 4.094 per cent, respectively. The Company also repaid $100 million of 5.096 per cent debentures at maturity on November 18, 2014.

The Company maintained strong investment grade credit ratings, which allow access to capital markets at competitive rates. In 2014, Standard and Poor's Ratings Services (S&P) and DBRS Limited re-affirmed their ratings of the Company as "A" with a stable outlook and "A" (high) with a stable trend, respectively.

Class A and Class B share owner's equity increased over the prior year mainly as a result of 2014 earnings. On June 1, 2014, the Company redeemed all outstanding 6.70 per cent Cumulative Redeemable Preferred Shares Series 2 totaling $160 million. The redemption was financed with available cash reserves.

FUNDS GENERATED BY OPERATIONS

Funds generated by operations of $1.2 billion in 2014 were comparable to 2013. Funds generated by operations are cash flow from operations excluding changes in non-cash working capital.

Management is committed to maintaining a significant level of liquidity at all times to provide financing flexibility. In addition to funds generated by operations, sources of liquidity include cash and available committed credit facilities.

UTILITIES INFORMATION

The Utilities' activities are conducted through three regulated businesses within western and northern Canada: ATCO Electric, ATCO Gas, and ATCO Pipelines.

REVENUES

Revenues in the Utilities were $29 million higher in the fourth quarter and $206 million higher for the year ended December 31, 2014, compared to the prior year.

Increased revenues for the transmission operations of ATCO Electric are attributable to significant capital investments in transmission infrastructure in Alberta.

The distribution operations of ATCO Gas and ATCO Electric recorded increased revenues as the interim 2014 Performance Based Regulation (PBR) rates are higher than the interim 2013 PBR rates. In addition, revenues in the distribution operations of ATCO Gas increased as a result of higher transmission rates paid to the transmission services provider and higher franchise fees paid to municipalities, both of which are recovered from customers. Revenues also reflected increased capital investment in utility infrastructure, more customers and higher demand for energy largely resulting from colder weather.

ADJUSTED EARNINGS

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

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
ATCO Electric	**66**	46	20	**273**	223	50
ATCO Gas	**54**	42	12	**97**	81	16
ATCO Pipelines	**9**	7	2	**39**	34	5
Total Utilities	**129**	95	34	**409**	338	71

In 2014, adjusted earnings generated by the Utilities of $409 million were $71 million, or 21 per cent, higher than 2013. Adjusted earnings in the fourth quarter of 2014 of $129 million were $34 million higher than the same period of 2013.

The Company continued to make significant capital investments in the Utilities, particularly in electricity transmission infrastructure in Alberta. Capital growth was the primary driver for the year-over-year increase in adjusted earnings.

In addition, the distribution operations of ATCO Electric and ATCO Gas included incremental earnings from the AUC's 2014 Interim Rates Decisions received in the third quarter of 2014. The Decisions approved recovery of increased interim rates from 60 per cent to 90 per cent of incremental Capital Tracker funding, pending final decisions expected in the first quarter of 2015. Adjusted earnings increased by $26 million as a result of these decisions which covered 2013 and 2014. Of this amount, $11 million related to 2013 and $15 million related to 2014.

Utilities adjusted earnings increased by 21% in 2014 compared to 2013

The Utilities also recorded $14 million in adjusted earnings as a result of a significant reduction in registered defined benefit pension plan contributions for 2014. This reduction in required employer contributions came about due to a valuation of the Company's largest defined benefit pension plan completed in 2014.

The AUC's 2014 decision for information technology and customer care and billing services (2010 Evergreen Decision) partly offset the impact of the 2014 Interim Rates Decisions and pension revaluation. Adjusted earnings decreased by $32 million in 2014 as a result of this decision which covered the period 2010 to 2014. Of this amount, $10 million related to 2014 and $22 million related to prior periods.

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

ATCO ELECTRIC

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), transmit and distribute electricity mainly in northern and central east Alberta, the Yukon and the Northwest Territories. Its service territory includes the oil sands areas near Fort McMurray and the heavy oil areas near Cold Lake and Peace River.

ATCO Electric's adjusted earnings were $66 million in the fourth quarter and $273 million in 2014, an increase of $20 million and $50 million, respectively. Strong 2014 fourth quarter and year-over-year adjusted earnings are mainly attributable to growth in rate base in transmission operations. Capital investment in ATCO Electric’s distribution operations also generated higher earnings under the interim approved Capital Tracker rates. In 2014, ATCO Electric received approval from the AUC to recover 90 per cent of its requested incremental capital funding on an interim basis for 2013 and 2014. The final decision on Capital Trackers is expected in the first quarter of 2015. The distribution operations also benefited from more customers and higher demand for energy.

Adjusted earnings for 2014 included a $6 million reduction related to the prior-period impact of the 2010 Evergreen Decision. Additionally, adjusted earnings for 2013 included $13 million to reflect the full impact of the AUC Decision relating to the 2013/2014 General Tariff Application.

ATCO GAS

ATCO Gas distributes natural gas throughout Alberta and in the Lloydminster area of Saskatchewan. It services municipal, residential, business and industrial customers.

Adjusted earnings in ATCO Gas were $54 million in the fourth quarter and $97 million in 2014, an increase of $12 million and $16 million, respectively, over the prior periods. Increased earnings for the year came from capital investment, more customers, higher demand and a reduction in pension plan contributions. ATCO Gas received approval from the AUC to recover 90 per cent of its requested incremental capital funding on an interim basis for 2013 and 2014. The final decision on Capital Trackers is expected in the first quarter of 2015.

Adjusted earnings in 2014 included a $14 million reduction related to the prior-period impact of the 2010 Evergreen Decision.

ATCO PIPELINES

ATCO Pipelines transmits natural gas in Alberta. 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.

Adjusted earnings in ATCO Pipelines were $9 million in the fourth quarter and $39 million in 2014 resulting in an increase over the same periods in 2013 of $2 million and $5 million, respectively. These increases were mainly from growth in rate base.

Adjusted earnings for 2014 included a $2 million reduction related to the prior-period impact of the 2010 Evergreen Decision.

MAJOR CAPITAL EXPENDITURE PROJECT UPDATES

Total capital expended in the Utilities over the last three years was $6.4 billion. The largest expenditures were in the transmission operations of ATCO Electric. The AESO has identified the need for major reinforcement and expansion of the electricity transmission system in Alberta, and ATCO Electric is dedicated to improving Alberta’s electrical system through responsible transmission development.

Capital expenditures for ATCO Gas, ATCO Electric Distribution and ATCO Pipelines over the three-year period are representative of expenditure levels required to provide safe and reliable service and meet the demands of a growing province.

$6.4 billion in Utility capital expenditures from 2012 to 2014

Total capital expenditures for the Utilities in the last three years are provided in the table below.

	Year Ended December 31		
($ millions)	**2014**	**2013**	**2012**
Electric Transmission	**1,233**	1,355	1,345
Electric Distribution	**369**	408	387
Gas Distribution	**292**	268	323
Pipeline Transmission	**185**	147	87
Total	**2,079**	**2,178**	**2,142**

The Utilities continued their major capital expenditure programs, investing a further $524 million in the fourth quarter of 2014. Total capital expenditures in the Utilities during 2014 were $2.1 billion, comparable to the same period of 2013. The transmission operations of ATCO Electric invested $272 million in the fourth quarter and $1.2 billion in 2014. The Eastern Alberta Transmission Line (EATL) is the largest single project under construction. The EATL project spend was $148 million in the fourth quarter, bringing the total spend to date to $1.7 billion. The in-service-date has shifted from December 2014 into 2015 due to delays related to the completion of the converter stations. A new date will be established once updated construction schedules have been finalized and the commissioning of the project has been coordinated and agreed with the AESO. While the impact on the project cost will be determined once the re-scheduling has been finalized, the costs at this time are not expected to be materially different from the $1.8 billion previously forecasted. Amounts for the EATL project exclude interest during construction.

The Company plans to invest $4.8 billion in capital expenditures in the Utilities segment during the period 2015 to 2017. Of this amount, ATCO Electric is planning to spend $3.1 billion, of which $1.2 billion relates to projects directly assigned from the AESO to meet the needs it has identified to reinforce and expand Alberta's electricity transmission system to meet future demand. ATCO Gas and ATCO Pipelines intend to spend the remaining $1.7 billion, of which $467 million relates to the Urban Pipeline Replacement Project (UPR).

$4.8 billion in planned Utility capital expenditures for 2015 to 2017

A breakdown of the Utilities' major capital expenditure projects at December 31, 2014, is given below (all figures in the table and related commentary exclude interest during construction).

Project *($ millions)*	**Total Cost**	**Year to date December 31 2014**	**Total to date December 31 2014**	**Costs to Complete**	**In Service Date**
Eastern Alberta Transmission Line	**1,803**	**736**	**1,674**	129	2015
Northwest Fort McMurray					
Transmission Development	**463**	**33**	**64**	399	2019
Central East Transmission Development	**340**	**112**	**312**	28	2015
North East Region Transmission Development (1)	**800**	**59**	**106**	694	2019
Vermillion-Red Deer-Edgerton-Provost					
Transmission Development	**375**	**2**	**2**	373	2019
Urban Pipeline Replacement	**700**	**15**	**68**	632	2018
Total	**4,481**	**957**	**2,226**	2,255	

(1) Includes projects awaiting AESO approval.

Eastern Alberta Transmission Line (EATL) Project

This 500 kV high voltage direct-current transmission line, with associated converter stations and facilities, extends approximately 485 km along a corridor on the east side of the province of Alberta between Edmonton and Calgary. The line adds capacity to Alberta's existing electricity transmission system in response to the need identified by the AESO to reinforce the transmission system between the two cities and to prepare the province for projected load growth. By the end of 2014, all foundations and towers were installed and erected with 92 per cent of stringing completed. The remaining stringing was completed in February 2015. While work also progressed on the two converter stations, the in-service-date has shifted into 2015 due to contractor delays.

Northwest Fort McMurray Transmission Development Project

ATCO Electric received direction from the AESO to undertake a transmission development project northwest of Fort McMurray, Alberta. The project responds to several requests for transmission system access in the area, where significant load and generation requirements for oil sands developments are forecast. This project consists of two new substations and approximately 140 km of transmission lines, with total capital expenditures estimated at $463 million.

This project consists of two phases. The first is a substation with an estimated cost of $55 million. Final AUC approval was received in January 2014, with an expected in-service-date being delayed until the second quarter of 2015 as the customer was not ready to energize their facilities. The second phase consists of another substation and transmission lines with an estimated cost of $408 million. Customers are presently reviewing these facilities and their connection needs. It is expected that this portion of work may be delayed beyond 2019.

Central East Transmission Development Project

The Central East Transmission Development Project consists of a number of transmission line and substation upgrades to enhance the reliability and carrying capacity of the regional system in central east Alberta. Most of the transmission system upgrade work will be in the St. Paul, Cold Lake, and Bonnyville areas, approximately 300 km northeast of Edmonton, Alberta. The total estimated cost for the entire development is $340 million. All projects have received final approval from the AUC and are anticipated to be completed in 2015.

North East Region Transmission Development Project

Transmission development in the northeast region of Alberta consists of a number of customer-driven enhancements and additional 240 kV transmission lines in the Fort McMurray area. Preliminary estimates for this transmission development are approximately $800 million. Approximately $200 million in customer-driven enhancements are ongoing and are expected to be fully completed by the end of 2016. A system enhancement project referred to as Thickwood is required to strengthen the 240 kV system and allow for the tie in of the Fort McMurray 500 kV Project. The preliminary estimate of the cost of this enhancement is approximately $200 million with a forecast in-service-date of 2018. The remaining $400 million is tied to future oil sand expansions. Due to falling oil prices and continued inter-provincial pipeline capacity issues, the timing of this work remains to be finalized.

Vermillion - Red Deer - Edgerton - Provost Transmission Development

Transmission development in the area between Red Deer and Vermillion, in the central part of Alberta, is now being planned by the AESO to upgrade and enhance the reliability and carrying capacity. Early estimated costs of this development are $375 million and expected completion is in 2019.

Urban Pipeline Replacement (UPR)

The capital investment to complete construction of ATCO Pipelines' AUC approved UPR project will recommence in the first quarter of 2015. Construction will last approximately five years and the total cost of the UPR project is estimated to be $700 million, which includes the cost to integrate the new high-pressure network with ATCO Gas' low-pressure distribution system. The project will replace and relocate aging, high-pressure natural gas pipelines in densely populated areas of Calgary and Edmonton to address safety, reliability and future growth.

REGULATORY DEVELOPMENTS

Information Technology and Customer Care and Billing Services (Evergreen Application)

An AUC decision for information technology and customer care and billing services (2010 Evergreen Decision) was received in the second quarter of 2014. Adjusted earnings decreased by $32 million in 2014 as a result of this decision which covered the period 2010 to 2014. Of this amount, $10 million related to 2014 and $22 million related to prior periods.

Performance Based Regulation (PBR) Capital Tracker (K Factor) Applications

The K Factor applications are mechanisms included in the PBR regulatory model to allow the Company to recover capital expenditures that are not recoverable through the base PBR formula that meet certain criteria. In December 2013, the AUC approved the continued collection, on an interim basis, of 60 per cent of the applied-for incremental Capital Trackers for 2013 and 2014 as requested by ATCO Gas and ATCO Electric.

ATCO Electric and ATCO Gas re-filed their 2013 Capital Tracker Applications in the second quarter of 2014 as requested by the AUC. These re-filings came about as a result of an earlier decision that clarified the assessment process the AUC would follow to determine Capital Tracker funding. ATCO Electric and ATCO Gas also filed 2014 and 2015 Capital Tracker Applications in the second quarter of 2014 as requested by the AUC. Decisions from the AUC on the 2013, 2014 and 2015 Capital Tracker Applications are not expected until the first quarter of 2015. Meanwhile, ATCO Electric and ATCO Gas filed interim rate applications in the second quarter of 2014 for 100 per cent of the applied-for Capital Tracker rates. On October 24, 2014, the AUC approved 90 per cent of the applied-for Capital Tracker rates on an interim basis. Adjusted earnings increased by $26 million as a result of these decisions which covered 2013 and 2014.

2011 and 2013 Pension Decisions

In April 2014, the Supreme Court of Canada granted the Company leave to appeal the AUC's 2011 pension decision, which limited recovery of annual cost of living allowance (COLA) adjustments to 50 per cent of the Consumer Price Index (CPI), with a maximum COLA adjustment of 3 per cent. The Supreme Court heard the Company's appeal in December 2014, with a decision expected in 2015.

In the meantime, the Company submitted a Pension Application to the AUC for 2013 that included a request for 100 per cent recovery of the COLA adjustment. In January 2015, the AUC issued its decision in which it did not accept that the new evidence provided by the ATCO Utilities supported an increase in the recovery of annual COLA adjustments above the previously determined level of 50 per cent of CPI. The Company is planning to file an appeal of this decision.

Generic Cost of Capital (GCOC)

In 2014, the AUC held a proceeding to review cost of capital matters, including capital structure and return on common equity (ROE) for 2013 and 2014. As part of this proceeding, the AUC is also considering whether or not to return to a formula approach to determine ROE for 2015 and beyond.

The current AUC-approved interim rate of ROE is 8.75 per cent. A change in the approved capital structure or ROE may impact the Utilities' adjusted earnings. Under the terms of PBR, changes to the approved capital structure and ROE of distribution utilities have less of an impact on adjusted earnings. For these distribution utilities, their rates are determined through the use of a formula during the PBR term. A decision is expected in the first quarter of 2015.

2012 Deferral Account Application

On October 2, 2014, the AUC issued its Decision on ATCO Electric Transmission's 2012 Deferral Account Application. The Application included $585 million of expenditures for the 22 direct-assigned AESO projects that went into service in 2012, including $230 million for the North Fort McMurray Transmission Development. One $25 million project was removed from the Application and will be tested as part of a future proceeding. The Decision fully approved all costs into rate base and confirmed ATCO Electric's prudent management of its capital projects.

Alberta System Integration

ATCO Pipelines and Nova Gas Transmission Ltd. (NGTL) entered into an agreement with respect to natural gas transmission service that will allow ATCO Pipelines and NGTL to utilize their physical assets under a single rates and services structure with a single commercial interface for Alberta customers. This integration will end duplicate tolling and operational activities and result in more efficient regulatory processes.

The AUC issued a decision on May 27, 2010, approving the integration, subject to subsequent applications to address (i) the transition of ATCO Pipelines' customers to NGTL, and (ii) the swap of assets between ATCO Pipelines and NGTL in order to establish distinct operating areas. Commercial integration and the transition of customers took place on October 1, 2011, following AUC approval.

On November 22, 2012, the AUC issued a decision approving the asset swap between ATCO Pipelines and NGTL in order to establish distinct operating areas. On October 16, 2014, the National Energy Board issued an order approving the asset swap between ATCO Pipelines and NGTL. The asset transfers will commence in 2015 and are expected to be completed over a two-year period.

2015 - 2016 General Rate Application

In December 2014, ATCO Pipelines filed a general rate application for its operations for 2015 and 2016. The application requests, among other things, additional revenues to recover higher financing, depreciation and operating costs associated with increased rate base in Alberta.

UTILITIES RISKS

Cost of Service Rate Model

The Utilities segment is subject to the normal risks faced by regulated companies. These risks include the regulator's approval of customer rates that permit a reasonable opportunity to recover service costs on a timely basis, including a fair return on rate base.

These risks also include the regulator's potential disallowance of costs incurred. The ability to recover the actual costs of providing service and earn the approved rates of return depends on the Utilities achieving the forecasts established in the rate-setting process. In addition, there has been a series of recent regulatory decisions and ongoing cases before the courts related to the retirement of assets, which the Utilities continue to monitor and assess how they might impact the recovery of prudent costs. The determination of a fair rate of return on the common equity component of rate base is addressed as part of a generic proceeding for all regulated Alberta utilities and is an earnings and cash flow risk.

PBR Model

The Company's electricity and natural gas distribution operations represented by ATCO Electric and ATCO Gas moved to the PBR model on January 1, 2013. Under PBR, utility revenues are formula driven, which raises the uncertainty of cost recovery. Furthermore, certain matters related to the 2013, 2014 and 2015 Capital Tracker Applications for ATCO Gas and ATCO Electric remain outstanding, which causes additional uncertainty.

The Company has filed several leave to appeal applications with the Alberta Court of Appeal in order to preserve the Company's right to challenge the AUC's decisions in regard to PBR.

Pipeline Integrity

ATCO Pipelines and ATCO Gas have significant pipeline infrastructure. Although the probability of a pipeline rupture is very low, the consequences of a failure can be severe. Programs are in place to monitor the integrity of the pipeline infrastructure and replace pipelines as required. ATCO Pipelines' UPR project is intended to replace and relocate the aging, high-pressure natural gas pipelines in Calgary and Edmonton, to address safety, reliability, and future growth.

Measurement Inaccuracies in Metering Facilities

Measurement inaccuracies can occur from time to time in the Utilities' metering facilities. The Utilities' measurement adjustments are settled between parties, based on the requirements of the Electricity and Gas Inspections Act (Canada) and applicable regulations. There is a risk of disallowance of recovering a measurement adjustment. For Utilities, this disallowance can occur if controls and timely follow up are found to be inadequate by the AUC.

Transfer of the Retail Energy Supply Businesses

In 2004, ATCO Gas and ATCO Electric transferred their retail energy supply businesses to Direct Energy. The legal obligations of ATCO Gas and ATCO Electric for the retail functions transferred to Direct Energy, which include the supply of natural gas and electricity to customers as well as billing and customer care, remain if Direct Energy fails to perform. In certain circumstances, the functions will revert to ATCO Gas and/or ATCO Electric, with no refund of the transfer proceeds to Direct Energy. Centrica plc., Direct Energy's parent company, provided a $300 million guarantee, supported by a $235 million letter of credit for Direct Energy's obligations to ATCO Gas and ATCO Electric under the transaction agreements. However, there can be no assurance that the coverage under these agreements will be adequate to defray all costs that could arise if the obligations are not met.

Capital Expenditure Projects

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, but no assurance can be given that the assumptions will prove to be correct.

The Company is subject to the normal risks associated with major capital projects, including delays and cost increases. Although the Company attempts to reduce these risks by careful planning and entering into long-term contracts when possible, there can be no assurances against significant cost increases or delays.

OTHER EXPENSES AND INCOME

A financial summary of other consolidated expenses and income items for the three months and year ended December 31, 2014 and 2013, is given below.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Operating costs	**307**	286	21	**1,131**	1,044	87
Depreciation and amortization	**95**	85	10	**355**	320	35
Net finance costs	**59**	54	5	**215**	178	37
Income taxes	**36**	37	(1)	**138**	126	12

OPERATING COSTS

Operating costs, which are total costs and expenses less depreciation and amortization, increased by $21 million in the fourth quarter of 2014 and by $87 million for the full year. Higher expenses resulted from higher franchise fees paid to municipalities and higher transmission costs paid by ATCO Gas, which are both flowed through to customers resulting in no material impact to adjusted earnings.

DEPRECIATION AND AMORTIZATION

In 2014, depreciation and amortization expense increased by $35 million in the year and increased by $10 million in the fourth quarter, compared to the same periods in 2013. The increased expense for the year was mainly the result of higher capital investments in the Utilities.

NET FINANCE COSTS

Net finance costs increased by $5 million in the fourth quarter and by $37 million for the full year. Higher expenses resulted from incremental debt financing undertaken in 2013 and 2014 to fund the Utilities' significant capital expenditure program.

INCOME TAXES

Income taxes increased by $12 million for the full year of 2014. Higher earnings before income taxes was the main contributor to the increased expense.

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.

CREDIT RATINGS

Credit ratings are important to the Company's financing costs and ability to raise funds. The Company intends to maintain strong investment grade credit ratings in order to provide efficient and cost effective access to funds required for operations and growth.

In 2014, Standard and Poor's Ratings Services (S&P) and DBRS Limited re-affirmed their ratings of the Company as "A" with a stable outlook and "A" (high) with a stable trend, respectively.

LINES OF CREDIT

At December 31, 2014, the Company had the following lines of credit:

($ millions)	Total	Used	Available
Long-term committed	**900**	31	869
Uncommitted	**28**	4	24
Total	**928**	35	893

Of the $928 million in total credit lines, $28 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 2016 and 2017, unless extended at the option of the lenders. The majority of the credit lines are provided by Canadian banks.

CONSOLIDATED CASH FLOW

At December 31, 2014, the Company's cash position was $22 million, an increase of $16 million compared to 2013. Major movements are outlined in the following table:

	Three Months Ended December 31			Year Ended December 31		
($ millions)	2014	2013	Change	2014	2013	Change
Proceeds from funds generated by operations	**325**	332	(7)	**1,219**	1,196	23
Cash used for capital expenditures (including capitalized interest)	**(524)**	(690)	166	**(2,079)**	(2,178)	99
Proceeds from issuance of long-term debt	**200**	225	(25)	**1,200**	900	300
Repayment of long-term debt	**(100)**	–	(100)	**(100)**	–	(100)
Issue of Class A and Class B shares	**126**	202	(76)	**126**	202	(76)
Redemption of equity preferred shares to parent corporation	**–**	–	–	**(160)**	–	(160)
Other	**(191)**	(134)	(57)	**(190)**	(265)	75
(Decrease) increase in cash	**(164)**	(65)	(99)	**16**	(145)	161

Funds generated by operations

Funds generated by operations for the three months and year ended 2014, were comparable to the same periods in 2013.

Cash used for capital expenditures

Cash used for capital expenditures decreased by $166 million in the fourth quarter and by $99 million in the year of 2014 compared to the same prior year periods. The Company spent $2.1 billion in 2014 compared to $2.2 billion in 2013, primarily in the transmission operations of ATCO Electric.

Debt issuances and repayments

In order to fund significant capital investments, to repay existing indebtedness, and for other general corporate purposes of the Utilities, the Company issued a total of $1.2 billion of long-term debt in 2014. Of this amount, the Company issued $1.0 billion of 4.085 per cent 30-year debentures on September 5, 2014, which was the largest long-dated corporate bond on record in Canada. In addition, on October 17, 2014, the Company issued $200 million of 4.094 per cent 40-year debentures. The Company also repaid $100 million of 5.096 per cent debentures at maturity on November 18, 2014.

Preferred share redemption

On June 1, 2014, the Company redeemed all outstanding 6.70 per cent Cumulative Redeemable Preferred Shares Series 2 totaling $160 million. The Company refinanced these preferred shares with more cost-effective financing.

Base Shelf Prospectuses

On June 11, 2012, the Company filed a base shelf prospectus that permitted it to issue up to an aggregate of $2.6 billion of debentures over the 25-month life of the prospectus. The prospectus expired on July 11, 2014, with aggregate issuances of debentures totaling $1.8 billion.

On July 24, 2014, the Company filed a new base shelf prospectus that permits it to issue up to an aggregate of $2.6 billion of debentures over the 25-month life of the prospectus. As of February 18, 2015, aggregate issuances of debentures were $1.2 billion.

SHARE CAPITAL

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

At February 18, 2015, the Company had outstanding 3,570,322 Class A shares and 2,188,262 Class B shares.

QUARTERLY INFORMATION

The following table shows financial information for the eight quarters ended March 31, 2013, through December 31, 2014.

($ millions)	**Q1**	**Q2**	**Q3**	**Q4**
2014				
Revenues	654	523	468	**601**
Earnings for the year	169	87	47	**104**
Adjusted earnings	139	52	89	**129**
2013				
Revenues	551	474	443	**572**
Earnings for the year	130	78	54	**110**
Adjusted earnings	126	57	60	**95**

The consolidated statements of earnings and cash flows for the three months ended December 31, 2014, and 2013, are provided in Appendix 1 of this MD&A.

The large capital investment 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’s transmission 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 expenditures, on which the Utilities earn a regulated return on investment, drive growth in 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 impact of the 2014 Interim Rates Decisions. Lower adjusted earnings in the second quarter of 2014 reflected the financial impact of the 2010 Evergreen Decision for the entire four-and-a-half year period covered by the decision. The third quarter of 2013 included the positive impact of ATCO Electric's 2013/2014 GTA Decision.

RECONCILIATION OF ADJUSTED EARNINGS TO EARNINGS FOR THE YEAR

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

The following table reconciles adjusted earnings to earnings for the year of the Company.

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Adjusted earnings	**129**	95	34	**409**	338	71
Adjustments for rate-regulated activities	**(28)**	9	(37)	**(18)**	12	(30)
Dividends on equity preferred shares of the Company	**3**	6	(3)	**16**	22	(6)
Earnings for the year	**104**	110	(6)	**407**	372	35

ADJUSTMENTS FOR 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 December 31			Year Ended December 31		
($ millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Additional revenues billed in current period						
Future removal and site restoration costs [1]	**(12)**	8	(20)	**23**	40	(17)
Finance costs on major transmission capital projects	**15**	10	5	**46**	39	7
Impact of colder temperatures on revenues	**(3)**	–	(3)	**7**	–	7
Other	**6**	(9)	15	**10**	1	9
Total	**6**	9	(3)	**86**	80	6
Revenues to be billed in future period						
Deferred income taxes [2]	**(24)**	(20)	(4)	**(86)**	(73)	(13)
Transmission access payments [3]	**6**	(9)	15	**(7)**	(46)	39
Transmission capital deferral [4]	**(3)**	(2)	(1)	**(6)**	(14)	8
Impact of warmer temperatures on revenues	**–**	6	(6)	**–**	–	–
Other	**(7)**	(5)	(2)	**(10)**	(14)	4
Total	**(28)**	(30)	2	**(109)**	(147)	38
Regulatory decisions related to current and prior periods						
2010 Evergreen Decision [5]	**(24)**	–	(24)	**4**	–	4
2014 Interim Rates Decisions [6]	**22**	–	22	**–**	–	–
Transmission access payments recoveries (refunds) [3]	**(6)**	27	(33)	**13**	65	(52)
Transmission capital deferral refunds [4]	**–**	–	–	**(10)**	–	(10)
Weather recoveries (refunds)	**(4)**	–	(4)	**(4)**	4	(8)
Other	**6**	3	3	**2**	10	(8)
Total	**(6)**	30	(36)	**5**	79	(74)
Total adjustments	**(28)**	9	(37)	**(18)**	12	(30)

Notes:

(1) Future removal and site restoration costs

Future removal and site restoration costs are billed to customers on a forecast basis over the life of the associated assets. Under rate regulated accounting, billings to customers in excess of costs incurred in the current period are deferred. In 2013 and 2014, billings to customers exceeded costs incurred in the period. In the fourth quarter of 2014, actual costs incurred exceeded forecast costs included in billings to customers.

(2) Deferred income taxes

Deferred income taxes are a non-cash expense incurred by the Company for temporary differences between the book value and tax value of assets and liabilities. Unless directed by the regulator, deferred incomes taxes are not billed to customers until income taxes are paid by the Company. The change in deferred income taxes for the year ended December 31, 2014, relates to the timing of settling deferral tax balances as well as higher temporary timing differences that are deductible for income tax purposes.

(3) Transmission access payments recoveries (refunds)

Transmission access payments are billed to customers by ATCO Electric on a forecast basis; payments are expensed when incurred. Under rate-regulated accounting, differences between actual costs incurred and forecast costs billed to customers are deferred for collection from or refund to customers in future periods. In 2014 and 2013, actual payments for transmission access paid by ATCO Electric exceeded forecast costs included in billings to customers. These excess costs are subsequently recovered from customers.

(4) Transmission capital deferral refunds

For major transmission capital projects, ATCO Electric’s billings to AESO include a return on forecast rate base. When actual capital costs vary from forecast capital costs, the return on rate base, and the resulting billings to the AESO, will be higher or lower than expected. Under rate-regulated accounting, differences between billings to the AESO and the return on actual rate base are deferred for future recovery or refund. Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in subsequent years.

(5) 2010 Evergreen Decision

The Utilities recorded a reduction in adjusted earnings of $32 million in 2014 for an AUC decision which disallowed a portion of the information technology and customer care and billing costs incurred from the beginning of 2010 to the end of 2014. Under IFRS, earnings will be adjusted when the AUC approves revised customer rates and the amount payable to customers is refunded through future billings. In the fourth quarter of 2014, customer rates were adjusted and $28 million was refunded to customers. The remaining amounts are expected to be refunded in 2015.

(6) 2014 Interim Rates Decisions

ATCO Gas and ATCO Electric recorded increased adjusted earnings of $22 million in the third quarter of 2014 and a further $4 million in the fourth quarter of 2014 for the AUC Decisions which approved 90 per cent of the applied-for Capital Tracker rates on an interim basis. Under IFRS, earnings will be adjusted when customer rates are revised and the amounts receivable from customers are collected through future billings. In the fourth quarter of 2014, customer rates were adjusted and $26 million was collected from customers.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Board of Directors (Board) is responsible for understanding the principal risks of the business 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 reviews significant risks associated with future performance and growth. The Board also reviews lost opportunities identified by management that could materially affect the Company’s ability to achieve its strategic or operational targets. The Board is responsible for confirming that management has procedures in place to mitigate identified risks.

The Company is exposed to changes in foreign currency exchange rates. In conducting its business, the Company may use various instruments, including forward contracts, to manage the risks arising from fluctuations in exchange rates. All such instruments are used only to manage risk and not for trading purposes.

FOREIGN CURRENCY EXCHANGE RATE RISK

Foreign currency exchange rate risk arises from financial instruments denominated in a currency other than the functional currency. The Company entered into foreign currency forward contracts to manage its exposure to exchange rate risk arising on certain service agreements denominated in U.S. dollars.

CREDIT RISK

For cash and cash equivalents and accounts receivable, credit risk represents the carrying amount on the consolidated balance sheet. 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.

Derivative 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 Company minimizes this risk by dealing with large, credit-worthy counterparties with established credit-approval policies.

The maximum exposure to credit risk is the carrying value of loans and receivables and derivative financial instruments. Substantially all of the loans and receivables are from the Company's operations in Alberta. The Company does not have a concentration of credit risk with any counter parties.

Accounts receivable credit risk is reduced by a large and diversified customer base and credit security such as letters of credit. The Utilities are also able to recover an estimate for doubtful accounts through approved customer rates and to request recovery through customer rates for any losses from retailers beyond the retailer security mandated by provincial regulations.

LIQUIDITY RISK

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, 2014, the Company's cash position was $22 million and there were available committed and uncommitted lines of credit of approximately $893 million which can be utilized for general corporate purposes.

Contractual obligations for the next five years and thereafter are shown below.

		Payments Due by Period			
($ millions)	**Total**	**1 Year or Less**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Accounts payable and accrued liabilities	659	659	–	–	–
Accounts payable to parent and affiliate companies	12	12	–	–	–
Long-term debt	6,303	–	153	480	5,670
Interest expense	7,371	322	641	607	5,801
Operating leases (1)	55	16	22	12	5
Purchase obligations:					
Operating and maintenance agreements (2)	1,222	264	538	389	31
Capital expenditures (3)	113	113	–	–	–
Other	10	10	–	–	–
Total	15,745	1,396	1,354	1,488	11,507

(1) Operating leases are comprised primarily of long-term leases for office premises and equipment.

(2) Consists of ATCO Gas's transmission service from NOVA Gas Transmission Ltd. and the Company's information technology services contractual obligations.

(3) Consists of various contracts to purchase goods and services with respect to capital expenditures.

FINANCING RISK

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.

OTHER FINANCIAL INFORMATION

OFF-BALANCE SHEET ARRANGEMENTS

CU Inc. does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition, including, without limitation, the Company's liquidity and capital resources.

CONTINGENCIES

The Company can be party to a number of disputes and lawsuits in the normal course of business. The Company believes the ultimate liability arising from these matters will have no material impact on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The Company’s significant accounting estimates are described in Note 4 of the 2014 Annual Financial Statements, which are prepared in accordance with IFRS. The timely preparation of consolidated financial statements requires management to make judgments, estimates, and assumptions. These judgments may affect the application of policies on the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses.

Key variables used in the calculations, or changes to estimates, could cause actual results to differ from those estimates. The judgments could have a material impact on the Company’s financial position or performance. Management uses current economic conditions to develop these assumptions and these assumptions are reviewed on an on-going basis.

ACCOUNTING CHANGES NOT YET ADOPTED

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

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

- IFRS 9 (2013) Financial Instruments - this standard replaces IAS 39 Financial Instruments: Recognition and Measurement and also replaces previous versions of IFRS 9. The standard provides revised guidance on the classification and measurement of financial assets and liabilities adding guidance on general hedge accounting.

  The Company will early adopt the standard on January 1, 2015. The adoption of this standard is not expected to have a material impact on the Company's financial results but will result in additional disclosures in the annual consolidated financial statements.

- IFRS 9 (2014) Financial Instruments - this final standard replaces IAS 39 Financial Instruments: Recognition and Measurement and also replaces previous versions of IFRS 9. The standard incorporates IFRS 9 (2013), providing a further classification category for financial assets, and includes a new impairment model for financial instruments.

  The standard is effective on or after January 1, 2018. The Company has not yet determined the impact of the final standard and will not early adopt the standard.

- IFRS 15 Revenue from Contracts with Customers - this standard replaces previous guidance on revenue recognition, providing a framework to determine when to recognize revenue and at what amount. The standard applies to new contracts created on or after January 1, 2017, and to existing contracts not yet completed as of that date. The Company 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, 2014, the Company's 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, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As of December 31, 2014, 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, 2014.

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on October 1, 2014, and ended on December 31, 2014, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 year after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments and items that are not in the normal course of business or 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 5 to the 2014 Annual Financial Statements.

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.

GLOSSARY

Adjusted earnings means earnings for the year after adjusting for the timing of revenues and expenses associated with rate-regulated activities and dividends on equity preferred shares of the Company. Adjusted earnings also exclude one-time gains and losses, significant impairments and items that are not in the normal course of business or day-to-day operations. Refer to the “Reconciliation of Adjusted Earnings to Earnings for the Year” section for a description of these items.

AESO means the Alberta Electric System Operator.

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.

PBR means Performance Based Regulation.

APPENDIX 1
FOURTH QUARTER FINANCIAL INFORMATION

Financial information for the three months ended December 31, 2014 and 2013, is shown below.

CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended December 31	
($ millions of Canadian Dollars)	**2014**	**2013**
Revenues	**601**	572
Costs and expenses		
Salaries, wages and benefits	**(64)**	(75)
Energy transmission and transportation	**(37)**	(32)
Plant and equipment maintenance	**(66)**	(49)
Fuel costs	**(5)**	(4)
Purchased power	**(18)**	(18)
Depreciation and amortization	**(95)**	(85)
Franchise fees	**(54)**	(51)
Property and other taxes	**(12)**	(11)
Other	**(51)**	(46)
	(402)	(371)
Operating profit	**199**	201
Interest income	**4**	2
Interest expense	**(63)**	(56)
Net finance costs	**(59)**	(54)
Earnings before income taxes	**140**	147
Income taxes	**(36)**	(37)
Earnings for the period	**104**	110

CONSOLIDATED STATEMENT OF CASH FLOWS

($ millions of Canadian Dollars)	Three Months Ended December 31 2014	2013
Operating activities		
Earnings for the period	**104**	110
Adjustments for:		
Depreciation and amortization	**95**	85
Income taxes	**36**	37
Contributions by customers for extensions to plant	**44**	64
Amortization of customer contributions	**(10)**	(10)
Net finance costs	**59**	54
Income taxes paid	**(5)**	(7)
Other	**2**	(1)
	325	332
Changes in non-cash working capital	**(109)**	(24)
Cash flow from operations	**216**	308
Investing activities		
Additions to property, plant and equipment	**(478)**	(647)
Proceeds on disposal of property, plant and equipment	**2**	2
Additions to intangibles	**(25)**	(30)
Changes in non-cash working capital	**40**	(42)
	(461)	(717)
Financing activities		
Repayment of short-term debt	**(60)**	–
Issue of long-term debt	**200**	225
Repayment of long-term debt	**(100)**	–
Issue of Class A and Class B shares	**126**	202
Dividends paid on equity preferred shares	**(3)**	(6)
Interest paid	**(85)**	(80)
Interest received from affiliate company	**3**	4
Other	**–**	(1)
	81	344
Cash position		
Decrease	**(164)**	(65)
Beginning of period	**186**	71
End of period	**22**	6