

UNITED CORPORATIONS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the unaudited interim condensed financial performance and financial condition of United Corporations Limited ("United" or the "Company") for the third quarter of fiscal 2018 should be read in conjunction with: the March 31, 2017 Annual Report, including the MD&A, the Company's audited annual financial statements and the notes and supplementary financial information; the Company's MD&A and unaudited interim condensed financial statements and notes for the previous quarters of fiscal 2018; and the unaudited interim condensed financial statements and notes contained in this report. These unaudited interim condensed financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as set out in the Handbook of the Chartered Professional Accountants of Canada. The reporting currency for the Company is the Canadian dollar, and all amounts in the following discussion are in Canadian dollars.

This MD&A may contain certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, any forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

The Company

United is a closed-end investment corporation that trades on the Toronto Stock Exchange. United is an investment vehicle for long-term growth through investments in common equities, as management believes that over long periods of time, common equities, as an asset class, will outperform fixed-income instruments or balanced funds. From time to time, however, assets of the Company may be invested in interest-bearing short-term securities pending the selection of suitable equity investments.

The Company has been a closed-end investment corporation since 1929 and has never bought back its Common Shares. The Common Shares have historically traded at a discount to their net asset value, ranging from a 40% discount to a 15% discount over the past 10 years. Management believes that shareholders who have invested in the Common Shares of the Company recognize that the Common Shares of the Company usually trade at a discount to their net asset value.

Closed-end investment corporations have the following benefits: they often allow investors the opportunity to purchase assets at a discounted price; they have management expense ratios which are generally much lower than those for actively-managed open-ended funds; and the management of a closed-end investment corporation's portfolio is not impacted by shareholder subscription or redemption activities.

United has no plans to become an open-ended investment fund.

The majority of the Company's investment portfolio is actively managed by Jarislowsky Fraser Limited ("Jarislowsky") and ValueInvest Asset Management S.A. ("ValueInvest"). Each of the managers has a global equity mandate. As of December 31, 2017, \$754,902,000 (March 31, 2017 - \$768,470,000) and \$821,328,000 (March 31, 2017 - \$859,612,000) of equity investments were managed by Jarislowsky and ValueInvest, respectively.

Jarislowsky is a global investment manager whose head office is in Montreal, Quebec, with offices in Toronto, Calgary, Vancouver, and New York. Jarislowsky selects investments using a long-term bottom-up investment philosophy, which is to purchase good companies with strong economics and management, whose shares are selling below Jarislowsky's estimate of intrinsic value. The portfolio normally consists of 45 - 75 investments and includes publicly-traded equity securities of companies outside of Canada, with between 80% - 100% allocated to non-cyclical blue chip industry leaders with large capitalizations, and the balance allocated to cyclical smaller market capitalization companies. The target geographic mix expressed as a percentage of the portfolio are generally U.S. equities 30 - 70%; international equities 30 - 70%; and emerging markets 0 - 10%. On February 12, 2018, Scotiabank announced that it will acquire Jarislowsky. The transaction is expected to close during 2018, subject to regulatory approvals.

ValueInvest is a global investment manager whose head office is in the Grand Duchy of Luxembourg. ValueInvest provides portfolio advisory services to Canadian clients through Pier 21 Asset Management Inc., a registered portfolio manager based in Montreal, Quebec. ValueInvest's investment objective is to provide long-term growth primarily through capital appreciation, by investing in a portfolio of common stocks and equivalent securities of major companies around the world. The investment philosophy rests on its core conviction that long-term preservation and accumulation of wealth can best be achieved through a combination of attractive valuations and thorough assessment of the quality of the businesses. There is no target geographic mix for the portfolio. The portfolio normally consists of 30 - 80 companies.

UNITED CORPORATIONS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

On September 29, 2017 United allocated approximately \$100 million of its assets to emerging markets mandates, \$50 million invested in LSV Emerging Markets Small Cap Equity Fund, LP and \$50 million in Burgundy Emerging Markets Equity Fund. The LSV mandate is managed by LSV Asset Management, a value equity manager whose head office is in Chicago, Illinois. The Burgundy mandate is managed by Burgundy Asset Management Ltd., a fundamental value-driven investment manager whose head office is in Toronto. The risks of foreign investments are generally higher in emerging markets. As of December 31, 2017 the top 5 largest country exposures represented 59% of these emerging market mandates. These countries included India (15%), China (14%), South Korea (12%), Brazil (9%) and Taiwan (9%). In addition, the Jarislowsky investment portfolio held two investments within emerging markets.

The Company also has a long-term investment in Algoma Central Corporation ("Algoma"), a public shipping company. Algoma is a related party and is a reporting issuer which trades on the Toronto Stock Exchange with a profile on SEDAR. The investment in Algoma is consistent with the Company's investment strategy and contributes to achieving the investment objective of the Company. Further related party information is provided in Note 11 to the financial statements in the March 31, 2017 Annual Report and in the schedule of investment portfolio in this interim report beginning on page 14.

Investment Strategy

The objective of the Company is to earn an above-average rate of return, primarily through long-term capital appreciation and dividend income. Short-term volatility is expected and tolerated. Management remains confident that the Company's investment strategy will reward shareholders over the long-term.

The investment portfolio of the Company comprises primarily foreign equities. Net equity value and net investment income may vary significantly from period to period depending on the economic environment and market conditions.

Use of Non-GAAP Measures

This MD&A contains references to "net equity value per Common Share" and "net investment income per Common Share". These terms do not have any standardized meanings in generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies. Canadian GAAP is IFRS for these financial statements. The Company believes that these measures provide information useful to our shareholders in evaluating the Company's financial results.

Net equity value per Common Share is used by investors and management as a comparison to the market price of its Common Shares to determine the discount or premium at which the Company's Common Shares are trading, relative to the net equity value per Common Share. In order to determine its net equity value per Common Share, the Company deducts the cost of redemption of its Preferred Shares from its net assets.

Net investment income per Common Share is used by both investors and management to assess the approximate amount of dividends to be distributed on Common Shares. In order to determine its net investment income per Common Share, the Company deducts the dividends paid on its Preferred Shares.

Net equity value per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

	December 31 2017	March 31 2017
Net assets	\$ 1,693,395	\$ 1,621,302
Deduct:		
Cost of redemption		
First Preferred Shares	1,567	1,567
1959 and 1963 Series Second Preferred Shares	6,180	6,180
	7,747	7,747
Net equity value	\$ 1,685,648	\$ 1,613,555
Common Shares outstanding	12,194,193	12,194,193
Net equity value per Common Share	\$ 138.23	\$ 132.32

UNITED CORPORATIONS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net investment income per Common Share is calculated as follows (in thousands of dollars, except number of Common Shares and per Common Share amounts):

	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Net income	\$ 98,944	\$ 9,900	\$ 97,009	\$ 97,140
Add (deduct):				
Fair value change in investments	(110,237)	(7,149)	(90,075)	(90,375)
Tax on fair value change in investments	14,548	948	11,877	11,975
Dividends from limited partnership	376	—	376	—
Net investment income ¹	3,631	3,699	19,187	18,740
Deduct:				
Dividends paid on Preferred Shares	95	95	284	284
Net investment income, net of dividends paid on Preferred Shares ¹	\$ 3,536	\$ 3,604	\$ 18,903	\$ 18,456
Common Shares outstanding	12,194,193	12,194,193	12,194,193	12,194,193
Net investment income per Common Share ¹	\$ 0.29	\$ 0.29	\$ 1.55	\$ 1.51

¹ On an after-tax basis.

Net Equity Value per Common Share

The Company's net equity value per Common Share increased to \$138.23 at December 31, 2017 compared to \$130.43 at September 30, 2017 and \$132.32 at March 31, 2017.

With dividends reinvested at month-end net equity values, the Company's net equity value return for the quarter was 6.2% (2017 – 0.6%) and 6.2% (2017 – 6.6%) year to date.

Investments managed by ValueInvest presented a pre-tax year-to-date total return of 4.2% (2017 – 4.9%), whereas investments managed by Jarislowsky had a total return of 8.8% (2017 – 11.8%).

As the Company is a taxable Canadian corporation, the Company's net equity value is net of a provision for income taxes on net investment income and net realized gains on investments, and net of a deferred income tax provision on its change in unrealized appreciation of investments.

In Canadian dollar terms, total returns (capital gains plus dividends) for United's net equity value and stock market indices, were as follows:

	Three months ended December 31	Nine months ended December 31
	(%)	
United net equity value	6.2	6.2
MSCI World Index	6.2	8.9
S&P 500 Index	7.2	8.3
S&P/TSX Composite Index	4.5	6.5

UNITED CORPORATIONS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Growth in Net Equity Value ("NAV")

Set out below is a table that shows annual growth in NAV in each of the past 10 fiscal years:

Annual growth in NAV*

	NAV per Common Share	Annual Growth (%)
2008	\$ 77.18	(9.4)
2009	54.81	(28.1)
2010	67.33	24.4
2011	71.82	7.9
2012	72.32	1.9
2013	82.03	15.7
2014	99.50	23.2
2015	117.86	20.2
2016	120.66	4.0
2017	132.32	11.6

Compound annual growth*

2008 - 2017 - 10 years	5.9
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*This chart was drawn from the individual annual reports and any NAV amounts prior to 2014 have not been restated for any subsequent changes in accounting policies.

Operating Results

Net income

The Company reported net income for the third quarter of fiscal 2018 of \$98,944,000 compared to net income of \$9,900,000 in fiscal 2017. On a year-to-date basis, net income was \$97,009,000 compared to net income of \$97,140,000 in fiscal 2017. Net income per Common Share for the third quarter of fiscal 2018 was \$8.10 compared to net income of \$0.80 for fiscal 2017. On a year-to-date basis, net income per share was \$7.93 compared to net income of \$7.94 per share in fiscal 2017.

The Company's fair value change in investments for the third quarter of fiscal 2018 was a gain of \$110,237,000 compared to a gain of \$7,149,000 for the same period in fiscal 2017. On a year-to-date basis, the fair value change in investments was a gain of \$90,075,000 compared to a gain of \$90,375,000 for the nine months ended December 31, 2016. During the quarter, positive performance of \$57,843,000 in the U.S., \$17,248,000 in Europe, \$14,285,000 in Canada, \$11,594,000 in Asia and \$8,994,000 in Emerging Markets contributed to the \$110,237,000 fair value gain in investments. On a year-to-date basis, the U.S. investments contributed \$28,264,000, Europe \$27,650,000, Canada \$12,436,000, Asia \$12,013,000 and Emerging Markets \$8,894,000 contributed to the \$90,075,000 fair value gain in investments.

The significant contributors to the year-to-date investment performance included Algoma Central Corporation, Microsoft Corporation, and L'Air Liquide with fair value investment gains of \$12,436,000, \$8,379,000 and \$6,685,000 respectively. The largest year-to-date detractors were Kimberly-Clark Corporation, KDDI Corporation, and ConAgra Brands, Inc. with fair value investment losses of \$6,052,000, \$3,589,000, and \$3,304,000 respectively.

The net realized gain was \$23,255,000 for the third quarter of fiscal 2018 compared to \$9,628,000 for the same period in the prior year. On a year-to-date basis, the net realized gain was \$94,245,000 compared to \$45,280,000 in fiscal 2017. The increase in the year-to-date gain occurred primarily as a result of Jarislowsky and ValueInvest selling equities in order to fund the Company's increased investment in emerging markets during the second fiscal quarter. The largest year-to-date contributors to the net realized gain in fiscal 2018 were from the sales of U.S. securities for a gain of \$57,684,000, European securities for \$20,219,000 and Asian securities for \$15,149,000.

UNITED CORPORATIONS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net investment income

The Company's net investment income in the third quarter of fiscal 2018 decreased to \$3,631,000 compared to \$3,699,000 for the third quarter of fiscal 2017. On a year-to-date basis, net investment income increased to \$19,187,000 from \$18,740,000 for the same period in the prior year. On a per Common Share basis, net investment income for the quarter was \$0.29 in both fiscal 2017 and 2018 and on a year-to-date basis increased to \$1.55 in 2018 compared to \$1.51 in 2017.

Foreign dividend income in the third quarter decreased to \$6,239,000 from \$6,655,000 for the same quarter in the prior year and on a year-to-date basis increased to \$30,677,000 from \$30,018,000 in fiscal 2017. Foreign dividend income is impacted by changes in the composition of the investment portfolio, variability in foreign exchange rates and dividend yields.

The current quarter and year-to-date net investment income includes \$512,000 (2017 - \$nil) of pre-tax dividends from a limited partnership. This amount for accounting purposes is included in fair value change in investments in the statement of operations.

Canadian dividend income in the third quarter increased to \$327,000 from \$253,000 for the same quarter in the prior year and on a year-to-date basis increased to \$907,000 from \$761,000 in fiscal 2017. The increase in both periods occurred as a result of dividend increases by Algoma.

Expenses during the quarter increased to \$2,334,000 in fiscal 2018 compared to \$2,063,000 for the same period in the prior year, and on a year-to-date basis increased to \$6,786,000 compared to \$6,285,000 in the prior year. The majority of the increase relates to an increase in investment management and administrative costs resulting from a higher investment portfolio compared to the prior year, as well as increased management fees for the emerging markets mandates.

Quarterly Results

The following table summarizes various financial results on a quarterly basis for the eight most recent quarters (in thousands of dollars, except per Common Share amounts):

	Dec. 31 2017	Sept. 30 2017	June 30 2017	March 31 2017	Dec. 31 2016	Sept. 30 2016	June 30 2016	March 31 2016
Investments	\$1,741,035	\$1,642,607	\$1,672,747	\$1,673,802	\$1,589,654	\$1,582,130	\$1,525,816	\$1,519,665
Net investment income ¹	\$ 3,631	\$ 3,941	\$ 11,615	\$ 5,196	\$ 3,699	\$ 3,897	\$ 11,144	\$ 4,837
Net income (loss)	\$ 98,944	\$ (22,652)	\$ 20,717	\$ 75,146	\$ 9,900	\$ 57,675	\$ 29,565	\$ (60,699)
Per Common Share:								
Net investment income ¹	\$ 0.29	\$ 0.32	\$ 0.94	\$ 0.41	\$ 0.29	\$ 0.31	\$ 0.91	\$ 0.39
Net income (loss)	\$ 8.10	\$ (1.86)	\$ 1.69	\$ 6.15	\$ 0.80	\$ 4.72	\$ 2.42	\$ (4.99)
NAV	\$ 138.23	\$ 130.43	\$ 132.59	\$ 132.32	\$ 126.67	\$ 126.07	\$ 121.55	\$ 120.66

¹ On an after-tax basis.

Investment income is derived primarily from dividend income that is earned by the Company. While North American investments usually pay regular quarterly dividends, investments outside of North America often pay less frequently. In general, dividends earned on investments outside of North America peak in the first quarter of the fiscal year. From time to time, the Company receives additional one-time dividends arising from significant corporate transactions. There is no guarantee that the Company will receive dividend income on its investments at current dividend payout levels.

Overall returns are determined by the performance of the investment managers of the portfolio and may fluctuate significantly as illustrated by the past eight quarters. The returns generated by the investment managers may not correlate with benchmark returns.

UNITED CORPORATIONS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share Data

As at December 31, 2017, the following shares were issued and outstanding: 52,237 First Preferred Shares, 80,290 1959 Series Second Preferred Shares, 119,710 1963 Series Second Preferred Shares, and 12,194,193 Common Shares.

Liquidity and Capital Resources

The Company's dividend policy is to distribute annual net investment income, after payment of Preferred Share dividends, in the form of Common Share dividends.

The Company pays quarterly dividends on its Common and Preferred Shares together with an additional Common Share dividend representing the balance of net investment income for the previous fiscal year. The quarterly dividend is \$0.30 (2017 - \$0.20) per Common Share and \$0.375 per Preferred Share.

During the first fiscal quarter, the Company paid an additional cash dividend of \$1.12 (2017 - \$1.33) per Common Share representing the balance of net investment income for the previous fiscal year.

The Company's dividend policy is established by the Board of Directors at its discretion and is subject to change.

Additional Information

Additional information relating to United, including the Company's Annual Information Form, is available at www.sedar.com.

United's website, www.ucorp.ca, also provides further information on the Company, including historical information on the net equity value per Common Share which is updated weekly.



Duncan N.R. Jackman
Chairman and President

February 13, 2018