CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2017

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CONSOLIDATED STATEMENT OF EARNINGS

(millions of Canadian Dollars)	Three Months Ended March 31 2017	2016
Revenues	**775**	686
Costs and expenses		
Salaries, wages and benefits	**(55)**	(60)
Energy transmission and transportation	**(54)**	(49)
Plant and equipment maintenance	**(39)**	(31)
Fuel costs	**(4)**	(3)
Purchased power	**(22)**	(19)
Depreciation and amortization	**(119)**	(114)
Franchise fees	**(83)**	(65)
Property and other taxes	**(19)**	(15)
Other	**(55)**	(45)
	(450)	(401)
Operating profit	**325**	285
Interest income	**5**	4
Interest expense	**(89)**	(85)
Net finance costs	**(84)**	(81)
Earnings before income taxes	**241**	204
Income taxes	**(66)**	(55)
Earnings for the period	**175**	149

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(millions of Canadian Dollars)	Three Months Ended March 31 2017	2016
Earnings for the period	**175**	149
Other comprehensive loss, net of income taxes		
Items that will not be reclassified to earnings:		
Re-measurement of retirement benefits (1)	**(3)**	(4)
Comprehensive income for the period	**172**	145

(1) Net of income taxes of $1 million for the three months ended March 31, 2017 (2016 - $1 million).

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(millions of Canadian Dollars)	Note	March 31 2017	December 31 2016
ASSETS			
Current assets			
Cash		**249**	25
Accounts receivable		**321**	331
Accounts receivable from parent and affiliate companies		**33**	28
Inventories		**26**	24
Prepaid expenses and other current assets		**18**	17
		647	425
Non-current assets			
Property, plant and equipment	4	**14,110**	14,040
Intangibles		**488**	485
Long-term advances to affiliate company		**130**	130
Other assets		**27**	13
Total assets		**15,402**	15,093
LIABILITIES			
Current liabilities			
Bank indebtedness		**7**	1
Accounts payable and accrued liabilities		**494**	427
Accounts payable to parent and affiliate companies		**15**	10
Other current liabilities		**28**	7
Long-term debt		**150**	150
		694	595
Non-current liabilities			
Deferred income tax liabilities		**1,108**	1,076
Retirement benefit obligations		**147**	142
Deferred revenues		**1,656**	1,652
Other liabilities		**4**	4
Long-term debt		**7,139**	7,139
Total liabilities		**10,748**	10,608
EQUITY			
Equity preferred shares		**187**	187
Equity preferred shares to parent company		**79**	79
Class A and Class B share owner's equity			
Class A and Class B shares		**1,056**	1,056
Retained earnings		**3,332**	3,163
		4,388	4,219
Total equity		**4,654**	4,485
Total liabilities and equity		**15,402**	15,093

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(millions of Canadian Dollars)	**Note**	**Class A and Class B Shares**	**Equity Preferred Shares**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Equity**
December 31, 2015		1,056	266	2,944	–	4,266
Earnings for the period		–	–	149	–	149
Other comprehensive loss		–	–	–	(4)	(4)
Losses on retirement benefits transferred to retained earnings		–	–	(4)	4	–
Dividends	5	–	–	(3)	–	(3)
March 31, 2016		1,056	266	3,086	–	4,408
December 31, 2016		1,056	266	3,163	–	4,485
Earnings for the period		**–**	**–**	**175**	**–**	**175**
Other comprehensive loss		**–**	**–**	**–**	**(3)**	**(3)**
Losses on retirement benefits transferred to retained earnings		**–**	**–**	**(3)**	**3**	**–**
Dividends	5	**–**	**–**	**(3)**	**–**	**(3)**
March 31, 2017		**1,056**	**266**	**3,332**	**–**	**4,654**

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

(millions of Canadian Dollars)	Note	Three Months Ended March 31 2017	2016
Operating activities			
Earnings for the period		**175**	149
Adjustments to reconcile earnings to cash flows from operating activities	6	**265**	258
Changes in non-cash working capital		**86**	(13)
Cash flows from operating activities		**526**	394
Investing activities			
Additions to property, plant and equipment		**(188)**	(190)
Proceeds on disposal of property, plant and equipment		**–**	3
Additions to intangibles		**(14)**	(12)
Changes in non-cash working capital		**(22)**	(60)
Cash flows used in investing activities		**(224)**	(259)
Financing activities			
Dividends paid on equity preferred shares		**(3)**	(3)
Interest paid		**(83)**	(82)
Interest received from affiliate company		**2**	2
Cash flows used in financing activities		**(84)**	(83)
Increase in cash position		**218**	52
Beginning of period		**24**	(9)
End of period	6	**242**	43

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2017

(Tabular amounts in millions of Canadian Dollars, except as otherwise noted)

1. THE COMPANY AND ITS OPERATIONS

CU Inc. was incorporated under the laws of Canada and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its head office and registered office is at 700, 909 - 11th Avenue SW, Calgary, Alberta, T2R 1N6. The Company is controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, the Southern family.

CU Inc. is engaged in the following business activities:

- Electricity (electricity distribution, transmission and infrastructure development); and
- Pipelines & Liquids (natural gas transmission, distribution and infrastructure development).

The unaudited interim consolidated financial statements include the accounts of CU Inc. and its subsidiaries (the Company).

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

The unaudited interim consolidated financial statements are prepared according to International Accounting Standard (IAS) 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, prepared according to IFRS.

The unaudited interim consolidated financial statements are prepared following the same accounting policies used in the Company's most recent annual financial statements, except for income taxes. In interim periods, income taxes are accrued using an estimate of the annualized effective tax rate applied to year-to-date earnings.

The unaudited interim consolidated financial statements were authorized for issue by the Audit Committee, on behalf of the Board of Directors, on April 25, 2017.

BASIS OF MEASUREMENT

The unaudited interim consolidated financial statements are prepared on a historic cost basis, except for retirement benefit obligations and cash-settled share-based compensation liabilities which are carried at remeasured amounts or fair value.

Revenues, earnings and adjusted earnings for any quarter are not necessarily indicative of operations on an annual basis. Quarterly financial results may be affected by the seasonal nature of the Company's operations and the timing of utility rate decisions.

Certain comparative figures have been reclassified to conform to the current presentation.

3. SEGMENTED INFORMATION

SEGMENTED RESULTS

Results by operating segment for the three months ended March 31 are shown below.

2017 **2016**	**Electricity**	**Pipelines & Liquids**	**Corporate & Other**	**Intersegment Eliminations**	**Consolidated**
Revenues - external	**338**	**437**	–	–	**775**
	346	340	–	–	686
Operating expenses (1)	**(127)**	**(204)**	–	–	**(331)**
	(106)	(181)	–	–	(287)
Depreciation and amortization	**(75)**	**(44)**	–	–	**(119)**
	(72)	(42)	–	–	(114)
Net finance costs	**(56)**	**(28)**	–	–	**(84)**
	(55)	(26)	–	–	(81)
Earnings before income taxes	**80**	**161**	–	–	**241**
	113	91	–	–	204
Income taxes	**(22)**	**(44)**	–	–	**(66)**
	(30)	(25)	–	–	(55)
Earnings for the period	**58**	**117**	–	–	**175**
	83	66	–	–	149
Adjusted earnings	**95**	**98**	–	–	**193**
	88	92	–	–	180
Total assets (2)	**9,992**	**5,330**	**136**	**(56)**	**15,402**
	9,883	5,157	134	(81)	15,093
Capital expenditures (3)	**96**	**110**	–	–	**206**
	105	101	–	–	206

(1) Includes total costs and expenses, excluding depreciation and amortization expense.

(2) 2016 comparatives are at December 31, 2016.

(3) Includes additions to property, plant and equipment and intangibles and $4 million of interest capitalized during construction for the three months ended March 31, 2017 (2016 - $4 million).

ADJUSTED EARNINGS

Adjusted earnings are earnings for the period after adjusting for:

- the timing of revenues and expenses for rate-regulated activities,
- dividends on equity preferred shares of the Company,
- 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 used by the Chief Operating Decision Maker (CODM) to assess segment performance and allocate resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

The reconciliation of adjusted earnings and earnings for the three months ended March 31 is shown below.

2017 2016	Electricity	Pipelines & Liquids	Corporate & Other	Intersegment Eliminations	Consolidated
Adjusted earnings	**95**	**98**	**–**	**–**	**193**
	88	92	–	–	180
Rate-regulated activities	**(39)**	**18**	**–**	**–**	**(21)**
	(7)	(27)	–	–	(34)
Dividends on equity preferred shares	**2**	**1**	**–**	**–**	**3**
	2	1	–	–	3
Earnings for the period	**58**	**117**	**–**	**–**	**175**
	83	66	–	–	149

Rate-regulated activities

ATCO Electric and its subsidiaries, ATCO Electric Yukon, Northland Utilities (NWT) and Northland Utilities (Yellowknife), as well as ATCO Gas and ATCO Pipelines are collectively referred to in the consolidated financial statements as utilities.

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

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

Rate-regulated accounting differs from IFRS in the following ways:

Timing Adjustment	Items	RRA Treatment	IFRS Treatment
1. Additional revenues billed in current period	Future removal and site restoration costs.	The Company defers the recognition of cash received in advance of future expenditures.	The Company recognizes revenues when amounts are billed to customers and costs when they are incurred.
2. Revenues to be billed in future periods	Deferred income taxes and impact of warmer temperatures.	The Company recognizes revenues associated with recoverable costs in advance of future billings to customers.	The Company recognizes costs when they are incurred, but does not recognize their recovery until customer rates are changed and amounts are collected through future billings.
3. Regulatory decisions received	Regulatory decisions received which relate to current and prior periods.	The Company recognizes the earnings from a regulatory decision pertaining to current and prior periods when the decision is received.	The Company does not recognize earnings from a regulatory decision when it is received as regulatory assets and liabilities are not recorded under IFRS.
4. Settlement of regulatory decisions and other items	Settlement of amounts receivable or payable to customers and other items.	The Company recognizes the amount receivable or payable to customers as a reduction in its regulatory assets and liabilities when collected or refunded through future billings.	The Company recognizes earnings when customer rates are changed and amounts are recovered or refunded to customers through future billings.

The significant timing adjustments as a result of the differences between rate-regulated accounting and IFRS for the three months ended March 31 are as follows:

	2017	2016
Additional revenues billed in current period		
Future removal and site restoration costs (1)	**19**	17
Revenues to be billed in future periods		
Deferred income taxes (2)	**(29)**	(28)
Impact of warmer temperatures (3)	**–**	(17)
Settlement of regulatory decisions and other items	**(11)**	(6)
	(21)	(34)

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

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

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

4. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Utility Transmission & Distribution	Land and Buildings	Construction Work-in-Progress	Other	Total
Cost					
December 31, 2016	16,290	580	476	624	17,970
Additions	**32**	**1**	**163**	**–**	**196**
Transfers	**76**	**1**	**(78)**	**1**	**–**
Retirements and disposals	**(14)**	**(1)**	**(15)**	**(4)**	**(34)**
March 31, 2017	**16,384**	**581**	**546**	**621**	**18,132**
Accumulated depreciation					
December 31, 2016	3,567	130	–	233	3,930
Depreciation	**99**	**4**	**–**	**8**	**111**
Retirements and disposals	**(14)**	**(1)**	**–**	**(4)**	**(19)**
March 31, 2017	**3,652**	**133**	**–**	**237**	**4,022**
Net book value					
December 31, 2016	12,723	450	476	391	14,040
March 31, 2017	**12,732**	**448**	**546**	**384**	**14,110**

The additions to property, plant and equipment included $4 million of interest capitalized during construction for the three months ended March 31, 2017 (2016 - $4 million).

5. EQUITY PREFERRED SHARES AND EQUITY PREFERRED SHARES TO PARENT COMPANY

Cash dividends declared and paid per share three months ended March 31 are as follows:

(dollars per share)	2017	2016
Equity preferred shares		
Cumulative Redeemable Preferred Shares		
4.60% Series 1	**0.2875**	0.2875
2.24% Series 4 [(1)]	**0.1402**	0.2375
Equity preferred shares to parent company		
Perpetual Cumulative Second Preferred Shares		
4.00% Series V	**0.2500**	0.2500

(1) Effective June 1, 2016, the annual dividend rate for the Series 4 Preferred Shares was reset to 2.24 per cent for the five-year period commencing June 1, 2016. Prior to June 1, 2016, the annual dividend rate was 3.80 per cent.

The payment of dividends is at the discretion of the Board and depends on the financial condition of the Company and other factors.

6. CASH FLOW INFORMATION

ADJUSTMENTS TO RECONCILE EARNINGS TO CASH FLOWS FROM OPERATING ACTIVITIES

Adjustments to reconcile earnings to cash flows from operating activities for the three months ended March 31 are summarized below.

	2017	2016
Depreciation and amortization	**119**	114
Income taxes	**66**	55
Contributions by utility customers for extensions to plant	**15**	27
Amortization of customer contributions	**(12)**	(12)
Net finance costs	**84**	81
Income taxes paid	**(10)**	(7)
Other	**3**	–
	265	258

CASH POSITION

Cash position in the consolidated statement of cash flows at March 31 is comprised of:

	2017	2016
Cash	**249**	43
Bank indebtedness	**(7)**	–
	242	43

7. FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENT

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below.

Financial Instruments	Fair Value Method
Measured at Amortized Cost	
Cash, accounts receivable, accounts receivable from parent and affiliate companies, bank indebtedness, accounts payable and accrued liabilities and accounts payable to parent and affiliate companies	Assumed to approximate carrying value due to their short-term nature.
Long-term advances to affiliate company and long-term debt	Determined using quoted market prices for the same or similar issues. Where the market prices are not available, fair values are estimated using discounted cash flow analysis based on the Company's current borrowing rate for similar borrowing arrangements (Level 2).

The fair values of the Company's financial instruments measured at amortized cost are as follows:

	March 31, 2017		December 31, 2016	
Recurring Measurements	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets				
Long-term advances to affiliate company	**130**	**165**	130	166
Financial Liabilities				
Long-term debt	**7,289**	**8,279**	7,289	8,193